

1-1-1990

# Practicing CPA on practice development : a collection of articles from the AICPA local firms newsletter

Graham G. Goddard

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## Recommended Citation

Goddard, Graham G., "Practicing CPA on practice development : a collection of articles from the AICPA local firms newsletter" (1990). *Guides, Handbooks and Manuals*. 321.  
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# **The Practicing CPA**

## **on PRACTICE DEVELOPMENT**

**A Collection of Articles from  
the AICPA Local Firms Newsletter**

**AICPA**

American Institute of Certified Public Accountants

# **The Practicing CPA on PRACTICE DEVELOPMENT**

**A Collection of Articles from  
the AICPA Local Firms Newsletter**

**Edited by Graham G. Goddard**

**American Institute of Certified Public Accountants**

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1211 Avenue of the Americas, New York, N.Y. 10036-8775

1 2 3 4 5 6 7 8 9 0 PA 9 9 8 7 6 5 4 3 2 1 0

### **Library of Congress Cataloging-in-Publication Data**

The Practicing CPA on practice development / edited by Graham G.  
Goddard.

p. cm.

A collection of articles published in the Practicing CPA from 1977  
through 1988.

ISBN 0-87051-091-6

1. Accounting firms—United States. 2. Accountants—United  
States. I. Goddard, Graham G. II. Practicing CPA. III. American  
Institute of Certified Public Accountants.

HF5629.P73 1990

338.7'61657'0973—dc20

90-1195

CIP



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## FOREWORD

For the accounting profession, the 1980s formed a decade of significant change. Changes in technology, in the regulatory climate, and in consumers' attitudes affect the way we develop and deliver services. These changes will continue unabated in the coming decade. As a result, competition—with other accounting firms and with nonaccounting firms—will increase.

As clients have become more knowledgeable, they have become more demanding, and their long-term loyalty to an individual firm cannot be assumed. The nurturing of client relationships and the adoption of modern management and practice development techniques are essential if firms are to survive and prosper in the years ahead. *The Practicing CPA on Practice Development* will be a valuable resource in this regard.

*The Practicing CPA* was authorized by the AICPA board of directors in 1977, largely as a result of suggestions received from members attending local practitioner seminars and others who represented the interests of members in smaller CPA firms at the Institute. From the beginning, the focus of the publication has been on local firms.

Most of us in local practice appreciate *The Practicing CPA's* nuts-and-bolts type of material and easy-to-read style. Rarely is there an issue that does not contain at least one helpful idea for our individual practices. This has been particularly true during the last few years as we began to implement concepts of marketing and selling professional services.

Many of us have retrieved back issues from our firm libraries to refer to specific articles on practice development topics. This collection of articles into one systematic volume will eliminate that task completely. *The Practicing CPA on Practice Development* will be a valuable reference for all local firms.

—ROBERT L. ISRAELOFF, CPA, Israeloff, Trattner & Co., Valley Stream, New York.

## WHAT'S INSIDE . . .

In November 1977, the AICPA commenced publication of a monthly letter for local practitioner members. *The Practicing CPA*, as it became titled, was to have a strongly practical orientation and a focus on such matters as practice management and the practical application of professional standards.

Articles on practice development have been a prominent feature of the publication since the second issue in December 1977. Reflecting the experiences of successful local practitioners, the ideas of advertising, public relations, and marketing executives, and the expertise of consultants to the profession, the articles published over the years contain a wealth of practical information.

Many practitioners have written to tell us they use *Practicing CPA* articles to stimulate practice development discussion at partner retreats. Others find the articles valuable as reference when planning their firms' marketing and practice development programs.

A CPA firm can no longer assume its reputation assures prosperity or even survival. In today's highly competitive environment, practitioners must aggressively market their services to gain an advantage. This is where *The Practicing CPA on Practice Development* can help. This volume is a collection of practice development articles that have been published in *The Practicing CPA* from December 1977 through December 1988.

In order to increase the publication's usefulness, the articles are arranged into twelve chapters. Because some of the ideas expressed in an article often extend beyond one narrow topic, and sometimes refer to other articles in other chapters, or to *Practicing CPA* materials that are not included here, cross-references have been maintained. Most of the articles have a byline. Those that don't were written by the editor.

The chapters, too, follow a logical sequence. The first one deals with the initial stages of developing plans, while the last one considers mergers with and acquisitions of other CPA firms. Brief synopses of the chapters follow.

### **Plans and Ideas for Practice Development**

This chapter starts with the prerequisites for practice growth—the development of a plan and a philosophy for the practice. Some reasons for growing are given, and suggestions are made on where to look for opportunities and on ways to achieve growth. The chapter has hints on starting and maintaining a practice development plan and on developing clients and the right attitudes for success.

### **Developing Niches and Specializations**

The second definition of the word “niche” in Webster’s *New World Dictionary of the American Language* is “a place or position particularly suited to the person or thing in it.” This definition and some of the article titles—“Panning for Gold,” “Planned Specialization: An Opportunity for Growth,” “Specialization = Growth”—adequately describe this chapter.

### **Training Staff for Practice Development**

In most firms, practice development skills are essential to becoming a partner. Yet, practitioners often raise questions on how to train staff in practice development activities. They want to know what to expect from staff in this regard, and how to reward people who do bring in business. This chapter has some suggestions for finding the answers.

### **The Profession’s and the Firm’s Image**

A poor image can be detrimental to both the profession and the firm, and can make recruiting top-quality staff more difficult. The articles in this chapter will help you determine what is wrong with your firm’s image and suggest ways to improve it. There are ideas on how to polish the profession’s image, too.

### **Clients’ Perceptions and Client Relations**

How are CPAs perceived? Which criteria do clients consider when selecting CPA firms? Knowing what clients expect from their CPA—what “quality” means to them and how they perceive your firm—are the keys to delivering the services clients want and to ensuring client satisfaction. This chapter points out ways to heighten your firm’s awareness of client needs.

### **Client Communications**

“Good Communications: The Key to Good Client Relations” is the title of the first article and the basis of all the articles in this chapter. There are ideas for improving your public speaking skills and learning to listen to other people, as well as suggestions for getting others to listen carefully to what you are saying. Other articles have suggestions for improving your performance in front of a camera, and for asking the right questions—that is, learning better interviewing techniques and for turning casual conversations into billable engagements.

### **Marketing and Selling Services**

In the future, marketing will have to become a way of life for local practitioners. This will require a change of attitude for many partners. Topics in this chapter cover making sales training meaningful, preparing effective proposals, and avoiding making some critical mistakes. You can learn ways to find out how partners and staff perceive the firm and how to set up a program for controlled, profitable growth. There are ideas for determining your objectives and defining the purpose of your marketing program.

**Networking, Referrals, Cross-referrals**

Cross-referrals can strengthen client relationships. The articles explore ways to help clients expand their businesses through cross-referrals, and show you how to cultivate and activate contacts.

**Conferences/Meetings/Seminars**

Many small details contribute to the success of all meetings. These articles tell you how to plan and run successful conferences, what the key factors are, what steps to take, and what other firms have done.

**Developing Client Newsletters and Brochures**

Attractive, well-written client newsletters and capabilities brochures are effective ways to market the firm. These articles tell you what to do to create the right impression, how to obtain appropriate material, and the steps to take to create a newsletter in-house.

**Advertising and Public Relations**

Public relations activities can be beneficial to CPA firms. The articles cover working with advertising agencies, the report of an advertising field test, and what clients think of accountants advertising.

**Mergers and Acquisitions of CPA Firms**

Mergers with and acquisitions of other CPA firms can offer unlimited growth opportunities. There are pitfalls to consider as well, though. Both the pros and cons are covered in this chapter.

**Note of Thanks**

*The Practicing CPA* has been well received by local practitioners since its first issue in 1977. This is due to the people in all aspects of public practice who have been willing to share their ideas and experiences with their peers. There are too many to mention here, but you will find their names in nearly all the articles that have been reproduced in this volume. There are two people whose names don't appear in the text but without whom these articles could not have been compiled into a single source: Marie R. MacBryde, who guided the book's production, and David K. Chipps, who designed the cover and pages.

We believe that *The Practicing CPA on Practice Development* will provide an invaluable reference to which practitioners will turn again and again. We express our thanks to all who have contributed their time and talents.

—GRAHAM G. GODDARD, *Editor, THE PRACTICING CPA, AICPA, New York*



## Section 1

# PLANS AND IDEAS FOR PRACTICE DEVELOPMENT

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## THE PREREQUISITES FOR PRACTICE GROWTH

December 1977

A successful firm does not grow haphazardly—its growth is planned. And as part of that plan it is necessary for the partners to develop a philosophy for the practice. There are four main points to consider at this stage:

1. Write the philosophy down in the beginning. It is easy to forget exactly what was said at a meeting; or not to give the subject any more thought unless there is a reminder. And failure to write it down could cause the partnership to break up because different partners have different aims.

2. The first sentence of the philosophy should describe the type of service the firm intends to render its clients.

3. The philosophy should cover such topics as the quality and scope of the services offered, professional ethics, the desired size of the firm, the working environment and the attitude towards mergers or acquiring practices.

4. It should stress the firm concept. Partners should not think of a client as "my" client, but "our" client.

In addition to a letter of welcome to new employees that explains our philosophy, our personnel guide lists the following objectives of the firm.

- ☐ To assemble a talented, well-rounded and ambitious professional staff.
- ☐ To offer our business community the finest professional accounting service available in terms of quality and scope.
- ☐ To develop and maintain sharp and efficient internal management of our firm.
- ☐ To establish and maintain a program of personnel policies and benefits which are competitive and effective.
- ☐ To charge fees which can support the profitable implementation of our goals.
- ☐ To maintain a commitment to a formal and informal program of professional development.
- ☐ To provide adequate opportunities for the entire professional staff to air their views.
- ☐ To pursue opportunities for mergers or to acquire practices.
- ☐ To expand our management services division.
- ☐ To assemble a talented, diversified, productive, efficient, flexible and contented clerical and administrative staff.
- ☐ To utilize our office space efficiently.
- ☐ To develop a formal public relations program.

### *The Three Phases of Evolution\**

It is important that the partners be able to recognize the various phases of evolution that their firm will go through. This will ensure smooth passage from one developmental phase to another, if they are able to impose the right solutions to problems as they arise.

In the first phase, growth comes through creativity. The emphasis is on service to existing clients, and on acquiring new ones. The partners are close to their clients and sensitive to feedback. There is little practice management at this stage, but it is unimportant because of the frequent and informal communication among employees. There is a direct relationship between profits and the partners' long work hours.

As the firm continues to grow and the number of staff increases, the old methods no longer work. Conflicts arise between the partners, and between them and the staff. There is no longer a direct relationship between hard work and profits. A crisis in leadership is created which is solved by the election of a managing partner. This is the beginning of the second stage during which a functional organization structure evolves.

The selection of the best suited person as managing partner is most important. The partner with the highest production is not necessarily the right choice for the job. At the same time, other partners should become responsible for technical functions such as tax and auditing services. During this phase, a more sophisticated accounting system is usually installed to provide practice management data.

An organization chart should be set up, and job descriptions, duties and partner guides written out. (See exhibits A, B, C on following page.) It is useful to have a personnel guide printed. (See MAP Handbook, Appendix to Part 3—Personnel Guide.) This is the time to introduce budgets for each staff person—it will help them complete assignments and start an automated time system that will make it easy to convert time into dollars.

As the organization continues to grow, problems will begin to surface again. Lower level staff people will feel restricted by a cumbersome and centralized hierarchy. They will feel that they are closer to the clients than are the partners, and will begin to demand greater autonomy. The solution adopted by most firms is to move towards increased delegation.

\*Based in part on the article, "Evolution and Revolution as Organizations Grow," by Larry Greiner in the July/August 1972 *Harvard Business Review*.

This third phase—growth through delegation—is a difficult period for many firms. Some partners find it hard to give up responsibility, and often lower-level staff people have not been trained to make management decisions. Disenchantment abounds. But if the firm survives these problems, its growth will come through the successful application of a decentralized organizational structure.

Some practitioners may well ask—why grow? In the next article, I will point out the advantages of growth and try to show how to achieve it.

*Adapted from a speech  
by Mary Ellen Rosenello*

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### Exhibit A

#### *Partners' Duties and Responsibilities*

The partners have final authority and responsibility in all aspects of the firm's operations. Their activities involve all the separate areas of practice including production, administration, promotion and coordination of the three.

In the area of production, a partner has final authority in the conduct of his or her engagements and full responsibility for the work performed.

He or she must coordinate clients' needs for services with the abilities of staff to provide them. He or she must see that fees are established at levels which match the value of the service to the client with the productive use of staff time, and which permit performing a satisfactory job on a profitable basis.

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### Exhibit B

#### *The Managing Partner*

The managing partner is appointed by the executive committee and is directly responsible to it. The managing partner is responsible for achieving the firm's objectives and implementing directives of the executive committee.

Specifically, he or she is charged with:

1. Proper staffing to achieve the objectives. This involves forecasting staff requirements, recruiting at the necessary levels, training, promoting, compensating, developing specialists, motivating and evaluating personnel.

2. Exercising controls to achieve the objectives. This involves time and dollar budgeting, accurate and timely financial reporting, development of adequate billing rates, prompt billing and collection of accounts.

3. Developing new business which will help achieve the objectives. This involves the develop-

ment of new clients, new business from old clients and public relations activities.

4. Establishing procedures which will result in the highest quality of work and an adequate review which will assure that quality control is constantly being achieved in all areas of service.

5. Stimulating partner, manager and staff activities in professional organizations.

6. Actively developing mergers with firms in local area which will help achieve the objectives.

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### Exhibit C

#### *Administrative Partner*

The administrative partner will report to the managing partner and will administer and coordinate all of the following activities.

#### (1) Personnel.

a. Hire and fire all clerical and administrative personnel.

b. Supervise and direct the work of such personnel.

c. Orient new administrative and professional staff in office and general administrative procedures.

d. Be responsible for and assist administrative assistant in his or her duties including employee insurances, payrolls, quarterly returns, etc.

e. Review time reports of all personnel.

f. Interpret staff manual for all personnel.

#### (2) Scheduling.

a. Be responsible for the scheduling of all client engagements and their staffing, and the coordination of firm-wide scheduling and use of labor. Install and operate a 12-month in advance engagement staffing requirement system.

b. Be responsible for the timely completion and mailing of clients' reports, tax returns, management letters, etc. and their processing through the office.

c. Coordinate and arrange staff meetings, executive committee meetings and partners' meetings.

d. Schedule all CPE courses.

#### (3) Administration.

a. Be responsible for the standardization of office procedures, systems, forms, equipment, etc.

b. Be responsible for maintenance of adequate levels of all types of supplies including tax return forms.

c. Be responsible for the neatness, correctness and availability of all client files.

d. Be responsible for the operation and maintenance of all equipment and physical plant.

e. Sign all checks up to a \$4,500 limit.

f. Assist partners in the collection of accounts receivable.

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## SOME REASONS TO GROW AND SOME WAYS TO ACHIEVE

January 1978

There are many reasons for wanting to expand your practice. Among other things, its growth will enable you to

- ☐ *Retain present clients.* As clients grow and expand into other activities, a CPA firm will have to increase its staff and the scope of its services if it is to keep them. (See MAP Handbook, chapter 105.)
- ☐ *Develop staff specialists* in taxes, MAS and auditing.
- ☐ *Create a growth atmosphere* so that you are able to retain good staff.
- ☐ *Provide continuity.* Your firm must be able to survive the loss of a key member by resignation or death and also provide for retirement.
- ☐ *Survive the loss of your largest client.* If your firm keeps growing so that its largest and most rapidly growing client always represents only a small percentage of gross billings, the loss of that client won't be devastating.

### *Quality—An Essential Element*

If your firm is to grow in an orderly and profitable manner, you must insist on high quality output from staff and partners.

Have a quality review—it's the greatest single factor in getting all partners moving. Even poor partners will change. They may not listen to you but they will listen to outsiders.

Have a central review partner. Set up rules and make them stick.

High quality staff is very important. If you are out developing business, you will need good people to do the work.

Don't rely on gut feeling when hiring. Use the testing material that is available from the AICPA and set minimum standards on test scores.

Assign the hiring responsibility to one partner. He will become the expert in that field.

There should be constant evaluation and supervision of staff. Get out the personnel folder on each individual when evaluating him and read the comments made on his work.

Also, see to it that when CPE courses are deemed necessary, they are undertaken.

It all helps in motivating the staff and will, in turn, help your firm to grow.

### *A Five-year Plan—How to Set One Up*

Successful industrial firms plan—so should CPA firms. Assign the responsibility of formulating a

five-year plan to either the managing partner or the chief executive partner.

All partners, at a location away from the office should decide

1. Where the firm should be in five years in terms of number of employees, gross billings, office space, etc.
2. What new services will be offered.
3. What part each partner wants to play in the plan's implementation—this is the key to its effectiveness.

The table of contents for a five-year plan should include such items as

1. A history of the firm's growth (using numbers and essay).
2. Fees.
3. Number of staff.
4. Assigned hours.
5. Partner's income.

The five-year projection should include such items as

1. Departmentalization of services.
2. Fees by departments.
3. Projection of staff needs by department.
4. The coordination of items 1 and 2.
5. Detailed time budgets.
6. Pro forma financial statements.
7. The assignment of areas of responsibility by consensus.

### *Some Sources of Firm Growth*

Your present clients are your greatest source of growth. You can capitalize on this by

1. Departmentalizing and implementing the five-year plan. However, you must put some teeth into the departments. For example, the tax department must review all corporate tax returns. Put the tax person into direct contact with the client—this will give the client two people to call.

2. Inform clients of new service areas. Use client bulletins. If you don't have one, use the *CPA Client Bulletin* which is available from the AICPA.

3. Make a list of clients' needs during the course of ordinary work. Try to dissuade clients from asking questions on other topics during this period and let you finish the assignment first. Then, go back and take care of the question as a separate engagement.

4. Never mail a finished report; deliver it and take the opportunity to apprise the client of the need for additional services. There is always something that they are not doing that they

should be doing. This is a real growth area for you.

5. Overstaff—this is a good practice management device. Idle staff make partners more creative. They will think of things for staff to do such as conducting market surveys, arranging seminars, etc. Also, when scheduling is tight, a client is often given a quick answer instead of an appointment being set up to get all the facts and to properly research the problem.

6. Point out the limitations of non-opinion reports for loans, etc. Audits are unlike taxes and MAS—they are the one service that only a CPA may perform. This is a good reason to build up this part of your practice. It is important to watch the time spent on audits or else fees must be renegotiated to lessen write-downs.

7. Management letters provide infinite opportunities. Make a central file of them in your office so that other people may read them.

8. List your clients by fees and concentrate on the median group. Clients in the highest brackets probably already receive total service. But there is a specific fee range of clients who are willing to accept the firm's full service. Study your firm's list and discover these blossoming clients. Get rid of the dud accounts, concentrate on the median group and remember to communicate with key clients periodically.

9. List your clients by business. It is useful to be able to tell bankers that you are experienced in a particular industry. It also gets back to the concept of clients belonging to the firm rather than individual partners.

10. Insist on close time budgets being maintained when working on audits and other annual reports. Do not perform other work that a client may request during an audit without making it a separate engagement. This will lessen the chance of write-downs and make it easier to do quality work. (See item number 3 above.)

11. Motivate all partners. Route each partner's billings to all partners. Adopt time budgets and

review them at least quarterly. You should hold partner meetings and in firms of up to 10 partners it is a good idea for them all to attend practice management and development conferences. This is because it is difficult for one partner to tell the others all that he has learned at these conferences.

#### *New Business*

1. Always list the source of new business. You will be surprised at how much business originates from people such as insurance agents who may serve two or three of your satisfied clients and refer you to others.

2. Make the firm known through a network of memberships and contacts. Ask the employees to join a club or association with which they feel comfortable. You must write down who belongs to which organization in order to establish when the contact was made.

3. It is a good idea to keep an open file of initial contact reports by each partner. You could have a file on each partner's promotional activities and insist on monthly reports being made, even if some of them are blank. (See MAP Handbook, chapter 105 for control forms.)

4. Issue press releases when members of the firm give lectures and take the time to listen to solicitors such as insurance agents, investment bankers, business brokers, etc. Schedule about 15 minutes for this but let them tell their stories in about 7 or 8 minutes and use the balance of the time to inform them about your firm.

Before you start on a program of practice growth you should evaluate your partners and your firm's present clients. You should review your rates and probably raise them. Sometimes you may want to drop clients and have more time to serve selected clients at higher rates.

*This is the second of two articles that were adapted from a speech on "How Practice Growth Occurs" by Mary Ellen Rosenello, Philadelphia.*

## NEW GAL IN TOWN

June 1983

"As a woman (in a new community), I find many traditional source contacts are closed to me. I would welcome suggestions for innovative avenues to pursue." That question was submitted to the panel at last year's AICPA MAP conference on practice development. The answer is that basically, practice development efforts are the same for women as for men and involve making contacts, meeting people and getting referrals. And always, you must do a good job on the engagement. However, let's see how some individual CPAs have handled the situation.

Rosemary E. Weiss, a Denver, Colorado practitioner says that the "in a new community" syndrome did not apply to her so she has a hard time addressing the issue. However, Ms. Weiss believes that practice development efforts should be the same whether it is a new community, a new practice or whether one is just seeking new business of any sort. Areas of contact which Ms. Weiss recommends include becoming active in the community by volunteering time in United Way and similar agencies and by becoming involved in church/synagogue ac-



tivities and joining women's organizations, such as women business owners and trade associations.

Rebecca M. Lee, who practices in Birmingham, Alabama, says that about a year ago she went into a new community as the partner responsible for audit and MAS work, with the ultimate objective of taking over as managing partner upon the retirement of the two older partners. One of the first things Ms. Lee did was to have a cocktail meeting with what appeared to be the key women in town. They discussed various needs and found out that while there were very few women executives in the community, more and more women would be willing to provide contacts and would refer business to other women. Very soon the women began meeting once a month at breakfast to discuss some of these needs, and they became such a hot topic that the local newspaper published an article about them.

Ms. Lee says that as the instigator of some of these activities, she received quite a bit of publicity and, in fact, generated many clients from it. The clients generated are not the point though. Ms. Lee states that the contacts made with bankers, attorneys and other professionals were beyond any expected from traditional sources.

Linda K. Cheatham was another CPA who faced this problem a few years back when she joined her present firm in Madison, Wisconsin. Not only was she new in town, she was often on the road which further precluded her from many of the usual methods of getting involved in the community.

Ms. Cheatham says that her first words to the woman who expressed this problem at the conference would be to encourage her not to assume that traditional source contacts are closed to her. Unless she is in a very small, very traditional town, there is no reason that she cannot make contacts through the usual channels; i.e., bankers, lawyers, investment counselors, etc.

Second, Ms. Cheatham suggests choosing a place to live where one's neighbors are the types of people one needs to meet both as potential referral sources and as potential clients. "In other words," she says, "living in an apartment building with college students or very young unestablished people would not be as beneficial as living in a residential area or an upper-bracket condominium or apartment development."

The second area in which Ms. Lee has concentrated is her membership in the country club. She believes this makes a person very visible, especially in a small community, and certainly takes the edge off picking up the tab when you have invited someone for lunch. Ms. Lee says, "I have found that lunch at the country club is much more effective than a drink after work or any of the things that might not appear 'proper' in a small community."

### Women in Accounting

The annual graduate supply and demand surveys conducted by the Institute reveal the increasing representation of women in the accounting profession. In 1976-77, 28% of accounting graduates were females. This representation increased steadily to 43% in 1981-82 and the 1983 survey indicates women will constitute 46% of the graduates by 1984-85. The same pattern can be seen in the demand for accounting graduates by CPA firms.

In 1976-77, 24% of the graduates hired by accounting firms were females. Currently, 38% of the new staff members hired by public accounting firms are women and this figure should increase another percentage point next year.

Copies of the study, "The Supply of Accounting Graduates and the Demand for Public Accounting Recruits," which shows past trends and contains projections through 1985, may be obtained, free of charge, by writing to the AICPA order department (Product no. 887158).

Too often, Ms. Lee thinks, women in a new community are afraid to call someone up for lunch and tell them what they are about. "While it is important to sell yourself as a woman new in the community," she states, "it is equally important not to sell yourself as an aggressive or forward person." Instead, Ms. Lee suggests, on first meeting people, tell them who you are, what your background is, what you are doing in town and ask them for suggestions on how you can become part of the community. She says that if you can line up a couple of key people in town, it will be a good way to develop additional contacts. One important point Ms. Lee makes is that whatever services are provided for the initial contacts, they must be done extremely well, very competently and, above all, on a timely basis.

Ms. Weiss reports that she has not relied on traditional source contacts. "However," she says, "through lunches, meetings and referrals, etc., as opposed to the traditional types of practice development, I have found present clients, attorneys and other people in the community to be most receptive to me and to the ability of our firm."

One suggestion she recommends highly to any woman is to develop an expertise in a given area. Ms. Weiss maintains that through developing professionally, client contact, practice development and the work product itself are much easier to accomplish.

A recommendation that Ms. Cheatham makes is to get involved in the community through serving on the boards of agencies such as hospitals, nonprofit organizations or arts councils. "Naturally," she says, "a woman cannot just walk in and say 'put me on the board.' But through volunteering her services on projects and committees, she will quickly be asked to serve in an administrative capacity."

Other ideas for meeting people are to attend civic and charitable functions. Ms. Cheatham says she has made contacts at the Arts Ball, The Zoo Ball and by working on the public television pledge drive. She believes that volunteering to give speeches on the new tax laws or other relevant topics to civic and community groups can be beneficial too. Most organizations are always looking for speakers and volunteers are welcome, although, as Ms. Cheatham says, it is sometimes necessary to make the arrangements months in advance because of meeting planning requirements. Still, the effort is usually worth it because your name and picture will probably appear in the organization's newsletter and, perhaps in the local newspaper too. Ms. Cheatham finds that the more people there are who know of her, the more invitations she receives.

Another avenue that Ms. Lee has found helpful is to become involved in an investment club with other women. (These are quite easy to form.) Many women have not been investors in the past and would welcome an opportunity to learn from those few people who know. Obviously this includes an

accountant, a stockbroker and other business women, some of whom may be in the banking industry. Ms. Lee says involvement in an investment club is a good opportunity to let the women in town know who you are, what your expertise is and that you are willing to share your knowledge, not just sell it.

Ms. Lee also believes in joining business and professional groups or other local activities. "I think most of what I have expressed is just becoming part of the community, trying to understand it and fitting in," she says.

Ms. Lee's final suggestion is to become involved in local activities where you will meet the people you need to contact. "Plan your social and personal life carefully," she says. For example, she adds, "Many of my clients are in the construction industry. I don't go to the museum of art hoping to generate new construction industry clients. Rather, I'm at the local baseball or football games on Saturdays with my son. These are the places you will find people in construction."

Ms. Weiss says, "Being a woman can work for you." She finds that some people think women are well organized and productive and says, "These attitudes can be capitalized on if one so wishes."

Ms. Cheatham says that while she does not recommend women's organizations, per se, women's networks or private clubs can be beneficial when used properly. Regarding the woman who asked the question at the conference, Ms. Cheatham says, "Encourage her not to expect immediate results. Practice development takes time."

## YOUR PRESENT CLIENTS OFFER THE FASTEST WAY TO GROW

July 1982

A firm must develop a philosophy of growth if it is to provide the type of environment that will offer clients a full range of services. All partners must believe in this philosophy and be prepared to make the necessary investment of time and money. And once agreed upon, the philosophy should be written down in the staff manual so that all members of the firm are aware of it.

At any given time, there is probably a 25 percent to 50 percent growth potential existing within most firms' client lists. This makes it well worthwhile establishing a program to review work traditionally passed up and consider services not offered before.

In our firm, we have a five-year growth plan that encompasses such elements as growth through mergers and the number of billable hours and staff required to reach our goals. We suggest that firms set high goals. Pinpoint the type of expertise and people you want in your firm, set up a management information system to monitor progress and don't be modest in your ambitions. (By

way of example, we have surpassed every goal we have set.)

### *Implementing the plan*

Clients seldom know what services they need, so this will allow you to use some imagination in upgrading the traditional accounting and auditing services presently offered. For example, you might find you can raise compilations to reviews, reviews to audits, or convert annual work to quarterly work or quarterly work to monthly. Perhaps you can serve as corporate controller (if you don't do the audit) or help clients hire staff for this function. Providing temporary help for clients is another possibility.

Once we embarked on our growth plan, it completely changed our method of hiring staff. We now make sure we have trained skilled people on hand so that we can offer certain services. One technique we have learned is to overstaff. It makes a firm much quicker in sending staff out to clients' offices.

**Exhibit****Client idea checklist**

To: MAS Department

From: \_\_\_\_\_  
In-charge accountant (or partner)

Date \_\_\_\_\_

Client \_\_\_\_\_

Present service provided:

Report date \_\_\_\_\_

☐ AuditInstructions

This form must be completed by the in-charge accountant by the completion of fieldwork. One copy should be submitted to the MAS partner and one copy retained in the audit file.

☐ Review☐ Compilation (annual only)☐ Other \_\_\_\_\_☐ It does not appear that this client will benefit from additional services.☐ I believe this client can be contacted regarding the following services:☐ Preparation of accounting manual with current written instructions on accounting policies and procedures.☐ Manual or automated accounting system design and implementation.☐ Preparation of budgets, cash flow statements or projections.☐ Design or evaluate internal management financial reports.☐ Help client establish short- and long-term financial planning and budgeting.☐ Cost accounting system design and implementation.☐ Special statements and analysis (break-even analysis, profit analysis by product or department, sales analysis, inventory control, return on investment studies, property and equipment replacement studies, lease or buy analysis, wage and salary survey).☐ Analyze possible new business acquisitions or merger of clients in compatible businesses.☐ Analyze need for in-house computer or use of the firm's or outside data processing services.☐ Help client in procurement and/or training of accounting personnel.☐ Other (describe) \_\_\_\_\_

We did not have a tax department until 1976—just one person. By the beginning of 1981, the tax department had grown to six people and currently there are eight people staffing the department. The Economic Recovery Tax Act of 1981 stimulated tremendous interest in tax and estate planning (we developed an eight-page descriptive booklet for laymen). As a result, there is heavy demand for services involving employee stock ownership plans, tax shelters, conversion to Lifo, etc. However, don't wait for your clients to initiate any movement toward estate planning. They are look-

ing to CPAs for guidance. So, send them a checklist and offer the service.

Management advisory services is another growth area. Here, your program should be formalized, particularly where partner and staff education is concerned, and lists should be prepared both of the firm's technical capabilities and of potential work. The MAS area offers many avenues, from EDP systems work to providing clerical and administrative services for clients. We perform clerical functions for one client—a land-leasing company—which, although only producing mod-

est fees, has led to several referrals. Other possibilities exist in providing library services and services to other CPA firms.

If your firm is to provide the services needed by growing clients, you will have to grow along with them. This means that you should adhere to your growth plan by staffing for growth, i.e., by hiring and training specialists prior to their being needed, and by developing departments and continuing professional education programs.

As an example, we have two savings and loan specialists and other staff who do work for not-for-profit organizations. All of these people have to stay up-to-date with their industries and this necessitates that we provide extensive CPE for them. We also have hired trained reviewers and developed a uniform system of reporting and have some small-business specialists who are paraprofessionals with data processing skills. We have found that our small-business department is a lead to other businesses.

One should establish a tax department as soon as possible and, if it is large enough, have subspecialists. (A great deal of time can be saved if people don't have to keep referring to tax services.) And, separate departments should be set up to handle various management services even if these are part-time activities. Other service areas that offer great growth potential include data processing and EDP consultation. You can enter these markets by obtaining a small computer and hiring or training personnel specifically for write-up work and by either hiring a trained specialist or securing the services of an outside consultant.

There are alternatives to staffing for growth. For example, a large CPA firm can provide services to smaller ones. This allows a small firm to service client needs without excessive cost and provides new business to the large firm. Such a relationship can even lead to merger. We sent letters to 125 small practitioners, mostly outside New Orleans, offering help on certain assignments which we thought provided a growth opportunity for us. We received 11 replies, of which 4 resulted in en-

agements. We also received four requests for merger.

### *Selling the plan*

The most important and difficult part of the entire program is selling it to partners and staff. You must get them enthusiastic and keep them informed of progress and plans. You can provide financial incentives and discuss some phase of the program at every staff meeting and in every staff publication.

Clients are in the selling business themselves. They don't mind you selling to them. We publish brochures describing our firm's services and include a "selling blurb" in every client newsletter. We also make our management letters a selling tool and make a point of keeping in contact with clients, taking them to lunch, etc., and telling them what we can do for them. We use a checklist (see exhibit) to generate service ideas.

While we have ruled out advertising at this time, we are having a public relations firm develop a public relations program for us. The idea is to make staff more oriented toward getting publicity from speeches, etc., and we think this should yield significant returns.

### *Monitoring the results*

As with any program, it is essential to monitor the results of your growth plan. Compare your progress to your goals, discuss the results with department heads and make adjustments and revise goals where necessary. And again, as with any other program, someone must be in charge, be the cheerleader and push for results.

It is important to stay current in the latest thinking in practice management and development and to do this we suggest you encourage all partners to attend management of an accounting practice programs. We have had a partner attend every AICPA MAP conference since 1976 and attribute much of our success and growth in the ensuing years to the contacts made and the ideas and experiences shared at these meetings.

—by Robert A. Peyroux, CPA  
New Orleans, Louisiana

## **CLIENT EVALUATION**

Usually, a large part of a CPA firm's new business originates from existing satisfied clients that

- ☐ Require additional services at current levels of business.
- ☐ Produce additional fees through the growth of their businesses.
- ☐ Help the practice grow through referrals.

Of course, not all clients are ideal in this respect and a few, for a variety of reasons, may cause most

of the client relations and practice management problems that arise.

It's a good idea for a CPA firm to try to upgrade its client roster. To do this, an evaluation procedure should be established to identify desirable clients (those that will help the firm meet its goals), to upgrade some and eliminate others.

But, before you can begin to eliminate bad clients, you must first consider your own firm's

December 1978

philosophy; i.e., you must get the owners together to consider and agree on what constitutes a good client.

For example, if yours is a growth-oriented firm, a good client will be a growth client. If you specialize in tax, auditing, MAS or an industry, a good client will be one that needs those specialties. You must consider the client's interests too.

Is your firm right for some of them? Are you all moving in the same direction?

An interesting by-product of the process of determining a good client is the insight gained into whether or not the partners agree on what constitutes a good client. The partners might all be going their separate ways and this procedure creates a platform for them to reconcile any differences and promotes the one-firm concept.

You must then decide how you will evaluate your clients. Our answer was to reduce the process to accountants' language, i.e., to develop a form with numbers on it. We decided too that the best people to give the tests are those with the billing responsibility, provided they know the clients best.

The process involves the use of certain criteria. In our firm, the following seven areas are deemed important:

- ☐ *Value of services rendered.* To determine how well the client understands and values the work performed by the firm.
- ☐ *Development potential.* Based upon the concept that growing clients offer more potential to the CPA firm than static ones.
- ☐ *Client cooperation.* Takes into consideration whether or not a client has data ready on time, is open-minded regarding our suggestions and keeps in contact over major business decisions.
- ☐ *Economic stability.* A successful business will usually have adequate cash flow to handle its obligations. This criterion determines a client's ability to pay and the risks involved in providing services to that client.
- ☐ *Timeliness of payment.* Benefits the CPA firm, is a good indication of the client's general business practices and reflects how well the client meets the first four criteria.
- ☐ *Liability exposure.* Our estimate of the risk of a possible lawsuit as it applies to that particular client. There may be cause for concern if the client has heavy credit lines, is thinly capitalized and is always having legal hassles.
- ☐ *Beats drum for us.* A good client is one that is pleased with our services and lets others know about it.

The actual evaluation system consists of a form (see exhibit below) with the selected criteria listed in sequence with space to the right to numerically rate each client on each point.

Three of the criteria are given a heavier weighting in the evaluation procedure (except in the lowest rating category) because we think they represent traits of a better client. Since we have assumed seven criteria to be important, a perfect client would receive 47 points under this system and a poor one only seven points.

Of course, there is nothing magical about these criteria or the weightings assigned to them. They just happen to suit our definition of a good client. Other practitioners will probably select entirely different criteria, have more or less of them, assign different weightings to them or assign none at all. The choice is completely arbitrary.

There are several avenues open to the practitioner after the evaluation is completed. For example, you could

- ☐ Do nothing. At least you will have determined your definition of a good client.
- ☐ Eliminate the bad clients.
- ☐ Attempt a reconciliation. If you do this, you must tell the client what is wrong, come to an agreement on the changes to be made and follow up on them.

It is important to write things down. In our firm, we write to the client informing him that our business relationship does not seem to be beneficial, and we will terminate it unless we hear from him within a set period of time.

This procedure has worked well for us. When we first tried it four years ago, 18 clients failed the test. Eight of these are now good clients, and we helped some others make alternative arrangements for accounting services.

#### Client Evaluation Form

Client \_\_\_\_\_ Evaluator \_\_\_\_\_ Date \_\_\_\_\_  
Occupation \_\_\_\_\_

Value of services to the client	1	3	5	7	9
Development potential	1	2	3	4	5
Client cooperation	1	3	5	7	9
Economic stability	1	3	5	7	9
Timeliness of payment	1	2	3	4	5
Liability exposure	1	2	3	4	5
Beats drum for us	1	2	3	4	5
Total rating					



We take a hard look at the bottom 10 percent of our client roster each year based on this evaluation form. We also make a point of writing an appreciative note to the top 10 percent. It's good client relations.

There can be a positive impact on the staff as well. Generally, our staff members are pleased that we don't take on or keep bad clients—it builds an image of a quality firm.

You must consider the possibility that the client may not be to blame for all of the problems. For example, if you have 20 write-downs and the same partner-in-charge on all those accounts, perhaps the clients were not billed properly. And it could be the firm's fault if clients do not have material ready on time. They might not have been told.

Also, clients should be evaluated to some extent before you take them on. The same questions

used in evaluating existing clients can be asked of prospective ones to determine if they fit your firm's philosophy.

While you can generate considerable goodwill by performing services free of charge for charities or a body such as a chamber of commerce, these nonpaying clients should be evaluated. This way, you can keep tabs on the results of your endeavors to make sure that your time is well spent.

Client evaluation has worked well for us, and we suggest other practitioners try it. Eliminating or upgrading a few undesirable clients may reduce your problems enormously and allow more time to be spent with high-quality, productive ones.

—by James W. Grimsley, CPA  
La Junta, Colorado.

## THE BASICS OF CLIENT-CENTERED PRACTICE DEVELOPMENT

December 1982

Client attrition is a factor that every CPA firm has to consider. Clients merge, go out of business or are lost to other firms and the practice must constantly be renewed. Also, changes in economic conditions alter clients' needs for CPA services and their expectations of what these services should do for them. For example, if business conditions are soft, clients may need an early warning system to alert them to possible problems, or they may want the CPA to serve as a sounding board for some of their ideas. And they are more likely to expect fast, responsive service.

These circumstances demand that a CPA firm organize its practice development program in ways that foster the expansion of services to present clients and that help in retaining key clients. The program must also aid in upgrading marginal clients, attracting desirable new ones and enabling the firm to sense and respond to clients' needs.

A few professional firms may engage in aggressive hard-sell tactics but many actually avoid the conscious development of any marketing program. They reason that by rendering high-quality services to their clients, the clients will be satisfied and receptive to new services and will recommend the firm to others. Unfortunately, this assumes that competitors are not practicing stronger forms of marketing, and it also means that the clients are choosing the firm, rather than the other way round. Many professional firms find that a client-centered program is a better approach to marketing their services.

Practice development is really the result of the development of relationships that already exist—your present clients being the most important element of the program. To be effective, your marketing efforts should be distributed among all staff

members, based on their interests and capabilities, not left to just a few individuals, and you must have someone who is responsible for coordinating the program and making things happen. Also, you must be prepared to make your marketing program equal to all other aspects of running a practice and to allocate a budget for training, planning and promotion. The program will initially call for building on your relationships with present clients and developing referrals and an awareness of your firm.

The first step then is to audit your practice—determine who the key clients are and the best sources of referrals. Establish where your firm's strengths lie, what your primary markets are and what opportunities are present. Develop appropriate strategies to retain and expand services to key clients. This is important because your best clients—the ones who know you well—are on someone else's target list. You will find that you can do both of these things if you have a client-centered perspective, take steps to enhance your working relationships and maintain communication with clients between engagements. You should also work to improve clients' understanding of the value of your services and to expand services to them by identifying their needs and problems and by developing a suggested services program. Plant the seed by talking about the benefits that will accrue to them such as reduced costs, a smoother running operation and increased profits; don't dwell on the techniques of what you have to do.

Key referral sources should be cultivated and prospective clients identified. The criteria for good prospects include high growth and profit potential and the possibility of attracting other clients in the same industry.

## Here's How to Involve Your Entire Team

	Present Clients		Nonclient Influential Relationships	Favorable Awareness	Eligible Potential Clients
	Retain	Expand			
Partners	P	P	P	P	P
Supervisors	P	S	P	S	O/S
Staff	P	O	S	O/S	O

P = Primary S = Secondary O = Optional

Total staff involvement is essential in smaller firms and the program should look something like the above.

As part of its marketing program, your firm should undertake to increase its overall market visibility and reputation—create a favorable awareness of itself. Several methods are available, such as joining various associations, holding seminars, sponsoring scholarships, awards or training programs and

engaging in public speaking and writing assignments. In all cases, one's degree of comfort will be paramount in selecting one's tools.

One final step in your practice development program should be to prune those clients that offer little growth potential, require an undue amount of attention and produce less than a normal rate of return. This is an essential decision which really needs to be made if you are serious about upgrading your practice.

The question facing CPA firms is not whether to engage in any marketing; it is how to do it effectively. With competitors setting up organized programs for business development, local CPA firms cannot remain indifferent to it.

—by Richard A. Connor, Jr.  
CPA Marketing Services  
6711 Bracken Court  
Springfield, Virginia

## LETTER TO THE EDITOR (PRUNING CLIENTS)

March 1983

In his article on client-centered practice development in the December issue of the *Practicing CPA*, Richard A. Connor suggests pruning clients that offer little growth potential, require an undue amount of attention and produce less than a normal rate of return. I believe that pruning less-than-economically desirable clients need seldom be considered because, in most cases, the situation can either be improved or will take care of itself. Let me suggest how.

First, clients whose fee levels are below desired levels should be subjected to a two-faceted approach consisting of (a) thoroughly reviewing all work done, eliminating the unnecessary and passing on to client personnel any clerical work needed, and (b) carefully and firmly increasing fees over a period of time to standard fee levels. Most clients will respond to reasonable efforts but a few whose primary philosophy is to be guided by price will leave. They don't have to be dismissed.

Second, clients whose grumbling about their services leads you to question whether they are worth

the bother should be subjected to individual attention and analysis. Find out what the client really needs, as opposed to supplying only what is asked for. Study the client's business from the perspective of what you would do if it were yours. Then, advise the client in a series of quiet after-hours give and take discussions and offer to provide the services you believe are required. Decline to provide unneeded services and explain why. Again, most clients will respond well and those few who don't will leave. They don't have to be dismissed either.

Finally, push work down to the lowest staff levels possible in your organization. However hard it is to do so, delegate. Everyone will gain by more productive utilization of important people. Keep in mind that you don't have to personally do the same work that you did at the beginning of the relationship. The few clients who cannot understand a maturing and high-level relationship will leave. However, most will appreciate and respect you more.

—Peter H. Burgher, CPA  
Utica, Michigan

## STARTING AND MAINTAINING A PRACTICE DEVELOPMENT PLAN

March 1984

In keeping with our belief that goal setting is essential, everyone in our firm has a time budget. The budgeting process includes our practice development efforts, much of the planning for which takes place at our annual firm retreat for partners and managers. Practice development has not always been well planned in our firm. In fact, in the beginning, our efforts were quite haphazard.

Stimulated by the ideas expressed at the first management of an accounting practice conference I attended a few years back, our firm embarked on a period of rapid growth. Revenues grew at a 70 percent annual rate for three years—a pace which is just too fast to be sustained without concomitant problems.

For example, our answer to the problem of coping with a rapidly increasing workload was to simply hire more staff. However, the trouble with that solution is that people need time to fit into a firm and the firm needs time to train them and implement programs. We found that not devoting enough time to the implementation of plans and programs caused many problems.

In an effort to indicate we were different from other firms, we developed a 12-minute slide documentary describing the firm. After initial confusion, staff simply stopped using it, mainly because no one knew how to proceed to the next step. Our seminars weren't very successful, either, because of lack of follow-up and personal contact. About the only success we had in our practice development efforts at that time was with the firm newsletter.

Our failures taught us the need for total coordination of marketing effort in the firm. We decided that the managing partner could not devote enough time to practice development and still effectively perform his other duties. We appointed a practice development partner, but unfortunately, he did not have enough time or adequate background to properly administer a marketing program either. The upshot was that at our next retreat we decided to hire someone (part-time) with the necessary experience to run our practice development program.

By now we knew that to maintain staff's initial enthusiasm, the marketing program had to meld with all other professional activities in the firm. The real need was for an internal practice development program that would provide the firm's personnel with knowledge of the services we could offer, who in the firm they should see and what they should do, etc.

There must be clear lines of authority if such a program is to work. To engage in practice development activities, staff must know who will actually render the services and how the job will be done.

The objectives of our internal practice development program are to provide personnel with information and systems that enhance their abilities to communicate with clients and match clients' needs with the services we can offer. As a first step, we identified 29 different services we were providing and made a list of our top 200 clients. We then matched the two lists to see what service opportunities we were missing, and devised a program to take advantage of these opportunities.

In order to let staff know about the firm's client activities, we have a column in the weekly staff bulletin that gives details of our marketing efforts. We also maintain a correspondence bank to let staff know what has been written to clients and where we stand on proposals. And, to implement follow-up programs, we have a personal action plan in which

people state how they will implement the practice development program on an individual basis.

### **External practice development**

One conclusion of a research study on market share that we commissioned, prior to designing our marketing program, was that price is not a factor in why clients choose one firm over another. The problem as clients see it is not the fees they are charged, it is the lack of attention they are paid. It is therefore up to the CPA firm to convince clients that it is the right firm for them and that it can provide the type of service they want. There are several ways to do this.

Client and referral source seminars, specialty brochures and, of course, client newsletters are all excellent ways of demonstrating expertise in given areas, and of establishing or maintaining contact. We believe that industry-directed inserts are useful in this regard. The inserts are prepared by industry teams which we established as part of an effort to improve client service—make more staff known to clients, etc.—and promote the one-firm concept.

Local newspapers are always looking for news articles and, used properly, can provide the best free advertising your firm can get. Another way we have found to get our firm name recognized is through the sponsorship of nonprofit fund raising events. Advertising is another possibility, although it is essential to know exactly which audience you are targeting and what you hope to achieve before you start spending any money. An area that we find to be particularly rewarding is community involvement. We are willing to spend a lot of time on activities such as the American Players Theater and public television and radio.

A turning point in our practice development efforts was our realization that marketing coordination is a full-time responsibility and that service firms should utilize people trained in marketing, even if this is on a part-time basis. While one person may be responsible for coordinating the plan, everyone in the firm—not just the marketing director—is responsible for marketing services.

As with all plans, your marketing plan must be in writing and must reflect the philosophy of the firm. You can refine the plan at retreats where partners have time to reflect on what is needed. You should, at least, leave the retreat with an understanding and, hopefully, with an agreement.

We find that as a result of the efforts we have made, our staff has become really involved in practice development. In the broadest sense, marketing our services is accepted as an integral function of the firm. This benefits not only our bottom line but our clients as well.

—by William T. Young, CPA  
Madison, Wisconsin

## GROWTH THROUGH INTERNATIONAL AFFILIATION

October 1983

Four years ago our firm joined an international association of independent medium-sized accounting firms which has since grown to 34 firms in 22 countries, including seven member firms in the United States. Our primary motive for affiliating with this international group was concern over the need to associate with independent firms in other states and countries in order to assist our clients who require tax or accounting services in geographical locations far removed from our normal service area. Previously, we had our clients engage one of the multinational firms and we became concerned that a client would succumb to invitations by those firms to deal with "just one firm" worldwide for all its needs. It was a significant threat because it is our major clients who are involved in such far-ranging activities.

Another purpose in joining was that since 1977 there has been a significant increase in our practice of servicing international clients. Most of these are investors seeking real estate opportunities in the burgeoning Southern California market, but others are businessmen establishing manufacturing, wholesale and retail operations similar to or in conjunction with their businesses overseas. We became proficient in the structuring of these new organizations, taking into account the international aspect of these clients' affairs. We believed that the affiliation with an international group of accountants would further assist us in handling this influx of new international clients with regard to accounting and tax matters.

The organizational format of the association is as follows:

- ☐ An executive committee composed of five members (only one of which is allowed to be from the United States) meets four times a year to consider new members and otherwise administer the organization.
- ☐ The general membership has an annual two-day meeting to review the prior year's activity, plan for the future and engage in both international practice management and technical issues.
- ☐ Once a year, between annual general meetings, the North American members meet to discuss matters pertinent to that area, and the German-speaking countries have a similar annual meeting. As the organization grows, other geographical or naturally affiliated groups will presumably have such meetings to discuss management and technical subjects of mutual interest.

Currently, committees have been formed consisting of members from various locations throughout

the world. The committees report either by a position paper during the year or at the annual meeting covering such diverse subjects as long-range planning, promotion and public relations, practice management problems, and the use of data-processing systems by medium-sized accounting firms.

The financial format under which the organization operates is as follows:

- ☐ Each member firm pays an initiation fee upon acceptance.
- ☐ All members pay the same amount of annual dues, regardless of the size of firm or its gross revenues.
- ☐ A small percentage of the fees collected from clients referred by other member firms is paid to the organization as additional dues.

It should be understood that this organization is not a partnership or other separate professional entity. Each member firm carries its practice as a separate unit completely independent of all other firms. This is an administrative organization of which all firms are members. It receives the fees referred to above to cover budgeted expenses and is operated on a nonprofit basis.

There is a requirement, subject to the client's acceptance, that all member firms must first refer clients to the member in the geographical area in which the client will be operating. Neither party is bound by the referral.

Our experience as a member has been most rewarding. We have had the opportunity to meet and exchange views with the other member firms and have found that, generally, the management of the practices is similar in areas ranging from personnel to collection of fees. We have been able to exchange views on the methods employed to generate new business from international clients beyond the normal attorney and client referrals. For example, one member firm cultivated foreign trade commissions and chambers of commerce officials; whereas members of another firm have traveled to Europe to attend or speak at local meetings of industrialists who are planning to or already have United States operating entities. One U.S. member is planning to open a small branch in a West German city, which will be facilitated by the local member firm providing shared office space for this endeavor.

The clients that we have referred to other members have been very satisfied with the quality of work performed. They also had the comfort and convenience of knowing that, though in a strange environment, they would receive reliable referrals to attorneys, bankers and others.

Over the past few years many referrals have been made to the member firms in the United States. This

was due to the generally unsettled conditions in the rest of the world and the natural tendency of successful entrepreneurs to establish a presence in the United States.

Our firm correctly anticipated that the U.S. member firms would be the recipient of more business than they might refer to colleagues overseas. We were concerned that this would not be perceived as fair by the non-U.S. members, which might result in a weakening of the organization. On the contrary, the non-U.S. members also realized that this condition would exist, but were grateful for the opportunity to retain control of their multinational clients. This is achieved by having colleagues to whom they can refer their clients with the utmost of confidence.

Our clients are impressed with the directory of members published by the group. It has been a most

useful tool in conferences with potential clients, discussions with attorneys and bankers, and even with existing clients. In addition to the organization's directory, each member firm furnishes all other members with firm resumes or brochures specifying the nature and scope of services offered and industries represented. The international affiliation is referred to on our business letterhead which has also generated favorable response.

There are many international organizations such as the one to which we belong. As a result of our experience, our firm is a strong proponent of such groups. It is certainly an avenue which all small and medium-sized local and regional firms should consider.

—by Irving Codron, CPA  
Beverly Hills, California

## IDEAS FOR GROWTH AND DEVELOPMENT OF THE LOCAL ACCOUNTING PRACTICE

January 1984

It may have been the thought of the cold winds beginning their assault on Chicago; or the image of a few games of tennis on well-kept clay courts; and yes, it may even have been the idea of gaining insights into operational problems of other medium-size local accounting firms. In any case, this Chicago CPA found himself in Hilton Head Island, South Carolina, for three days of Continuing Professional Education (CPE) sponsored by the South Carolina Association of CPAs.

"Assuming Partner Responsibility" the Level V course at Hilton Head, was excellent. I highly recommend the course for those professionals having just assumed partnership responsibility or who will be doing so in the near future. The manual provided superb reference materials in such areas as "Increasing Partner Chargeable Dollars," "Time Management," "Analysis of Internal Financial Statements," and "Partner Compensation and Related Partnership Agreements," to name a few.

The structure of the course maneuvered the professional away from the purely technical, application-type instruction to concentrate on those administrative concerns which need to be pursued at the partnership level. In addition, it helped ease the transition to partner to see other accountants struggling with the added burden, or shall we say opportunity, of running a business. The course gave me some excellent ideas in the administrative arena. Please appreciate that the concepts cross a broad spectrum but all reach for growth and development of the local accounting practice.

Some of these ideas are as follows:

Take a few minutes to list the five least profitable clients per billing manager and partner. These clients are usually smaller companies who have diffi-

culty maintaining adequate records and are chronic complainers concerning the size of the fees. At a group discussion, decide whether these clients should be retained. While it is difficult for practitioners to consider out-placement of current clients, there are several benefits.

- ☐ Most likely, too much time is being spent for too few fees, and outplacement can probably free personnel to do other things for more important clients.
- ☐ The client will be appreciative of your concerns if you can place him with a firm that can provide his level of service at an acceptable fee.
- ☐ The staff will begin to realize that the firm is discerning in the type of clientele being sought and this concept will remain with people as they begin working on practice development.

As your practice grows, greater emphasis may be placed on achieving a predetermined number of chargeable hours per partner. Accordingly, partners may be hesitant to pursue nonchargeable extended luncheons or incur the lost time in traveling to and from clients. To circumvent losing client contact when work is not being performed, consider establishing lower variable rates for practice development client visits. One firm utilized a rate of \$10 per hour for this type of time. By at least incorporating chargeable hours for general discussion, partners will not be as hesitant to visit clients.

The importance of clients' bookkeepers is often overlooked. One firm at the conference sponsors a seminar for clients' bookkeepers and asks them to bring along any friends they think might be interested. Invariably, these friends are bookkeepers of companies not being serviced and may provide an opportunity to develop new clients. The seminar



should be on basic areas such as changes in payroll deductions, computerized bookkeeping systems and basic cash-flow analyses. These topics can be presented by seniors or staff level personnel to give them experience in seminar presentation.

Spend two hours with key personnel in a brainstorming session devoted solely to responding to one question: "What new products have we developed in the past three years?" The dialog should flow freely and will probably produce some excellent practice development ideas.

In the area of personnel development, consider separating the annual performance review from the annual salary review. After discussing this concept at our conference, it became obvious that if the reviews are combined, staff members will be overly concerned with their new annual salaries and will not pay enough attention to problems or concerns about past performance and how these can be im-

proved. Staff counseling is important enough to warrant a separate session.

All junk mail—sales brochures for office and accounting supplies, etc.—can be gathered together by the mailroom personnel and kept in a separate box for two to three days before being destroyed. It is thus available should anyone wish to review it but high billing personnel are discouraged from spending 15 to 30 minutes each day combing through such publications.

One firm, wishing to expand its 1040 tax preparation client list, reviews the new real estate sales each week. Setting a minimum purchase price for the purpose, the firm sends letters to the new owners congratulating them on their acquisitions. At the same time, the firm is introduced to these people, which could result in additional 1040 work.

—by Irwin H. Lerman, CPA  
Chicago, Illinois

## PROFITABLE CLIENT DEVELOPMENT ATTITUDES

January 1984

The objectives of changing partner and staff attitudes toward client development are to provide better service to the clients and to improve the profitability of one's own firm. The following comments are based on ideas and techniques developed or tried in our Atlanta office to correct weaknesses and achieve these objectives.

Several surveys conducted by independent market researchers show that many business clients aren't aware of the full range of services offered by accounting firms, and tend to know little about local accounting firms in general. In order to develop a usable system for planning and controlling the growth of services to our business clients, we decided that one of the first things to do was to conduct a self-analysis of the office utilizing a simple technique employed by our MAS staff. Anyone who has wrestled with strategic planning will recognize the technique as a S.W.O.P.s analysis (strengths, weaknesses, opportunities and problems).

We had each partner give his perception of the office's S.W.O.P.s. The comments were confidential, candid and analytical. We all had the same goal in mind—to make the office a success.

Let's look at our findings in reverse order so that we end up on a positive note.

### *Problems and Opportunities*

Our analysis was that competition is keen in Atlanta because most of the national firms have an office there and there are several good regional and local firms too. Comparison with other offices within the firm showed that the busy season was particularly heavy and scheduling staff to handle this resulted in considerable overtime. The third

problem we noted was that some of our good clients had merged or been sold and that we were no longer performing any services for them.

To begin with, the economies of Atlanta and the sunbelt region were good. Atlanta, in particular, because of its new airport, was enjoying a boom of international businesses establishing offices or distribution points in the vicinity. Second, our firm had excellent name recognition in the major school districts of Georgia because of a successful organizational study we had performed for the Atlanta school board.

### *Weaknesses*

We discovered poor efficiency in the conduct of some audits which resulted in overauditing, and we were experiencing turnover of staff at the crucial in-charge and senior levels. The office also suffered from insufficient client development activity on an organized basis.

There were instances of poor service to clients, such as untimeliness of financial statements and tax returns. Too much attention was being paid to the smaller, less worthwhile clients and the good ones were not being contacted on a consistent basis throughout the year.

We were too busy firefighting and failed to utilize the help of our good clients in getting new business. None of us felt comfortable telling law firms, alumni and our good clients that we would like the opportunity to render services to their associates, contacts and friends.

Another weakness was our lack of visibility to clients, most of whom only knew and had occasional contact with two or three people from our office. We

didn't have target lists of prospective new clients and were not making use of other partners or staff members in joint efforts for practice development. Further, we were reluctant to take economic risks on new clients.

The staff was not utilized in practice development activities because of our belief that only partners could perform this role. On the other hand, because partners' and managers' billing rates were high compared with staff's rates, we thought they couldn't or shouldn't get involved with audits. We were overly concerned with percentage of standard.

Other weaknesses that came to light were failure to expand services to existing clients and failure to match our people's performances with rewards. Rank and engagements were decided on the basis of seniority. We were unable to evaluate practice development efforts regarding initial contacts, presentations, closings, servicing accounts and expanding the practice.

There were many substandard accounts in the office and partners were reluctant to bill full value for services. We suffered from a lack of follow-up in the billing and collection of accounts receivable. Fees were billed after deliverables were completed and little progress billing and collection efforts were performed.

#### *Strengths*

We knew we had technical competence in our MAS, tax, audit and review departments; and that we had good variety in our client base and good relationships with several law firms. The age spread among the partners was another plus factor and we enjoyed a high partner to staff ratio.

The conclusions we reached from our S.W.O.P. analysis were that we had a solid, strong base on which to build and that most of our weaknesses were symptoms of poor management and poor attitudes. We believed though, that attitudes, like work habits, performance and quality could be changed. Drawing from these conclusions, and with the assistance of our MAS coordinator, we developed a strategic plan.

To try to change attitudes of partners and staff, we began conducting regularly scheduled in-house local office professional education seminars (LOPES). The purpose is to educate staff as to the expertise and capabilities we have in the Atlanta office and the services we can offer. Instructors are assigned from all levels in the firm including entry-level accountants. Attendance is mandatory for all.

The LOPES initially met with resistance, with staff members thinking that they would have to sit through a couple of hours of technical talk. Instead, the sessions began to create an awareness of what other people in the firm did, and it wasn't long before people volunteered to give presentations on topics in which they were interested or had skills in

the hope that it would result in the sale of a service to clients.

The next step was to open partners' meetings to include managers. The objective was to get fresh viewpoints—new ideas and perspectives on running the Atlanta office. We found that the managers weren't at all intimidated but made suggestions for improving the operation of the office. They weren't willing to just accept long established procedures but questioned why we did certain things.

We also scheduled periodic staff meetings for in-charge accountants and monthly update meetings for tax and audit department staffs. The idea was to create a team spirit and to let people find out how their peers and supervisors were solving problems and helping clients. We still have these meetings.

We introduced internal performance reports to establish criteria for individual performance evaluation and encouraged staff members to become involved in various administrative duties. This was so that they would not have to develop these skills overnight on becoming partner. Some of these activities include billing, collection of accounts receivable and practice development efforts.

We also wanted to eliminate the "my client" attitude and have the most suitable person deal with a client. To do this, we reassigned client responsibilities which both gave us a fresh look at our clients and enabled us to expand services to them. In turn, this led us to organize what we call our client service teams, in which audit, tax and MAS professionals are assigned to each major client.

The techniques employed included preparing an analysis to identify levels of influence within the client's organization, determining the client's S.W.O.P.s, developing a list of client needs and their priorities and anticipating the client's long-range plans. Then we had a team develop a plan for executing the client's strategies. The plan included communication with the client by letter and phone concerning our activities, responsibilities for carrying out the plan, letting team members know about the different services being provided and making sure that we follow up.

In addition to these steps, we started to publish periodic in-house publications of engagement briefs so that everyone on the staff would be aware of our capabilities. An engagement brief is a two- to three-paragraph description of a client service opportunity based on actual engagements performed primarily by the tax and MAS staff.

The introduction of word processing equipment and microcomputers as in-house management tools and for the development of client service applications has also helped. We have been able to improve our efficiency and expand services to clients in tax planning, cash flow analysis, operating budgets, etc.

To help change attitudes outside the firm, we have held seminars and social events such as golf tournaments for clients, referral sources and prospective clients. We held an open house when we moved into our new office and, in return for sponsoring one of their concerts, had the Atlanta Chamber Players provide music for us in the lobby. For a cost of \$500, we had the additional benefit of the firm being named as sponsor in their concert program and promotional literature. We have offered our services for presentations at professional gatherings and, as a regular part of our audit program, make use of a questionnaire to identify client needs. We also distribute brochures and bulletins that specifically address client service expansion opportunities for which we have in-house capabilities.

In summary, these techniques were a two-pronged approach. They have helped us to educate partners and staff to make them cognizant of the firm's capabilities and to change their attitudes toward client development. The techniques have also allowed us to communicate our capabilities to the clients' total business and management needs.

The intangible benefits to date are an increased awareness of client service opportunities, improved firm visibility and client loyalty and the instillment of a one-firm concept. There have also been some tangible benefits. During the last three fiscal years, we have maintained a controlled increase in total personnel and have been able to emphasize growth in the areas of management advisory and client accounting services. Improvement in individual efficiency is shown by an increase of approximately 80 chargeable hours per year—a 15 percent increase overall. Bottom-line results have improved substantially. Rate realization is up almost 50 percent, fees have increased by almost 70 percent and operating income has improved by 130 percent.

The prevailing attitude, now, in the office is how can we best serve the client. As a result of this attitude, clients' perception of our practice is not just of a firm that is oriented toward a specific project, but of a CPA firm that can meet their total business needs.

—by Gale D. Eidson, CPA  
Atlanta, Georgia

## DAY TO DAY OPPORTUNITIES FOR PRACTICE DEVELOPMENT

December 1979

One of the topics often discussed among CPAs is practice development, i.e., how to develop new business. CPAs want to know how to find prospective clients—what organizations to join to meet them and how to get opportunities to sell their firms and services. However, it is very likely that the best opportunities to develop new work are not in obscure places but are right under our noses.

Several studies that I have conducted among successful firms indicate that their present clients not only provide about 50 percent of their new work each year but are also the firms' best referral source for new business.

Two of the most difficult tasks in new business development are making contact with prospective clients and gaining their confidence. With present clients, we are already over both hurdles. All we have to do is identify present clients' needs, and match those needs with our ability to provide the services. Generally, the loss of clients can be traced to the fact that their needs were not met. So, if we put the emphasis on meeting these needs, we will not only retain the clients but will develop new business as well.

Concentrating practice development on present clients has an additional edge in that it gives every staff member the chance to participate. All that is needed is a little training for staff people and perhaps a few aids to guide them in the identification of problems. (See "Training for Practice Develop-

ment" in the March 1979 issue of the *Practicing CPA*.)

The scope conference (or pre-engagement conference for new clients) provides an opportunity to discover unmet client needs. For example, the discussion of a recurring engagement, such as tax return preparation, lets the CPA explore other problems the client may have in the accounting, tax or systems areas. Most clients are more than willing to discuss their problems with a CPA who will listen and, guided by a few probing questions, will generally identify enough new work to keep several staff people busy for quite some time.

Additionally, these conferences allow us to demonstrate an interest not only in the strictly financial or tax concerns of business people but also in the overall business operation. They are an opportunity to show that accounting is not an end to itself, but is a means to greater business profits. They let us take off our green eyeshades and demonstrate that we understand how production, marketing, administration and other areas are interrelated and are part of the bottom line. And they let us show how these areas can be coordinated with tax and financial considerations. In these discussions, matters that may need attention, such as inventory levels, capital investment, cash flow and receivable controls come to light.

Most of us have a lot of checklists which we use in connection with audits, reviews, compilations, tax return preparation and other routine engagements.

Many of these checklists identify where accounting systems could be improved or what has become obsolete as a result of the firm's growth, etc.—all prime areas where the CPA can be of additional help to a client.

In the routine closing of a client's books at year-end, it is a simple matter, and not too time consuming, to build in a client review of operations. This might include a year-to-year comparison of selected financial ratios to show trends or to provide an indicator of problem areas. In many cases, standard industry ratios are available for comparison. Clients appreciate this added attention which can help change their notions of CPAs being expensive necessities to ideas of our being integral members of the profit team.

Another procedure that often results in additional work is for the CPA to conduct a simplified long-range planning session with the client. A discussion, lasting perhaps an hour, on topics such as where the business is headed or what new products will be introduced or if any new offices will be opened this year can be very fruitful.

The client's responses may suggest the need for modifications in operational reporting, a revision in the general ledger structure, implementation of accounting controls for new branches, inventory controls, cash flow analysis, upgrading EDP equipment to handle increased volume or other changes. These needs can become engagements for the firm.

Most of us have the tax preparation process down to a routine. Once the interview begins, we charge methodically through this routine, avoiding interruptions, until the return is signed.

In our practice, so as not to miss the many business development opportunities that come up, we added a check-off section to the tax routing sheet that lists many tax-saving areas that most often apply to our clients. As the return is being completed, pension and profit sharing plans, incorporation, estate planning, compensation planning, T and E documentation or other areas that need attention are brought to mind and noted. This section of the tax routing control sheet is detached by the person assembling and billing the return, and placed in a tickler file ready for attention after the tax season.

So, we find that in our day-to-day contact with present clients we have overcome two most difficult selling hurdles and have eight hours a day in which to develop new business. All we have to do is be alert to the opportunities and be, perhaps, a little creative. We find that the real opportunities for practice growth are not in obscure places; they are indeed right under our noses—all day, every day.

*—by Charles B. Larson, CPA  
St. Joseph, Missouri*

## PLANNING FOR CLIENT DEVELOPMENT

May 1983

If all the barriers we faced were natural, our abilities alone would determine the success or failure of our firms. As it is, we run into artificial barriers such as the bigness syndrome in which big is equated with better. This makes it more difficult to attract clients and to hire and retain the staff we want. To overcome these obstacles, we must analyze our firms from their founding to the present and develop a comprehensive business plan.

A major reason for the failure of any business plan is lack of commitment. Your strategic options are proportionate to the amount of effort you and your partners are willing to devote to the planning process. So, make sure your vision of the firm's future coincides with that of your partners and staff, and that everyone is fully committed to making the plan work.

To begin with, you should analyze the market for small CPA firm services in your area, keeping in mind that your practice is determined by your clients, not by your resources. Take a good look at your current and potential clients, find out why they want your services and what changes are likely in

your client base. For example, are your present clients enthusiastic about your services and likely to refer other clients to you?

Find out who your competitors are and identify them by name. What is their competitive strategy? Do they have a functional or an industry specialization? What are their pricing strategies and what changes do you anticipate? Find out who the local trend setters are and think of ways to differentiate your firm from the others. Remember, you can't be all things to all people.

The next step is to analyze your firm's resources to determine your ability to conceive new services. This involves not only having the financial resources to maintain working capital and finance growth, but also having the ability to deliver what you promise. You need the capacity to be able to respond to client service requests and initiate additional service suggestions, and to complete engagements on time and within the agreed upon budgets.

Marketing skill is a firm resource too. You must understand the market and know why people hire CPA firms before you can market your firm. It is

important to identify those factors that are critical to the success you have had so far and to realize that there are limitations to what a small CPA firm can do alone. Nevertheless, there are ways of overcoming these limitations, such as acquiring another firm, subcontracting work, forming joint ventures, joining an association with other firms or by developing internally.

General objectives and philosophical statements don't get results. Don't make the mistake of having too many objectives. Decide between those that are critical and those that are merely desirable and make the few critical ones specific, attainable and measurable—e.g., what will be achieved, to what extent, when and where. Then use these critical objectives to select your strategy, put your plan in writing and have all partners sign it.

It is possible that you may make incorrect assumptions, fail to anticipate competition, or the partners may fail to agree on and support the plan. Their absolute commitment is essential to its success. Other areas where plans can go awry are in underestimating future changes—governmental regulations, technological advances, etc., or in making too many changes too quickly. And remember to provide for disaster. If something can go wrong, it probably will.

#### Implementing the plan

Develop a time schedule for implementing the plan and assign responsibilities and priorities for the following areas:

- ☐ Management structure.
- ☐ Marketing and practice development.
- ☐ Technical competence.
- ☐ Personnel.
- ☐ Facilities.
- ☐ Financial resources.

Keep referral sources informed of what you are doing. They comprise your new business intelligence gathering system. An attractive brochure should be utilized to describe the firm's capabilities in terms of the types of services it performs and the training, experience and specialties of its principal members. A small firm's brochure does not have to be elaborate, but it can still be attractive and enhance the firm's image. And just the exercise of developing a brochure can help you solidify your thoughts and philosophy. Report covers, stationery, etc., should be standardized and the firm's logo should appear on all printed materials. A client newsletter is a dynamic and very popular way to keep clients and prospective clients current with the latest developments in the firm. For this reason, I believe a newsletter should be very personal because this can be superior to the canned variety.

Other tools to use in marketing your firm's services include making an inventory of client services, maintaining and following up on a client-contact file and providing incentives for practice development. Analyze why clients leave the firm and develop client profiles to determine what makes a good client. Again, partner commitment is essential in marketing. Partners must be willing to take on speaking engagements and writing assignments and to foster an "I care" attitude. Clients notice this.

Have good rapport with your staff and permit considerable client contact. Provide noncritical, nonevaluative counseling in the realm of personal goals and objectives. Make sure the staff is technically competent and get everyone's commitment to mutually agreed upon goals in critical performance areas.

#### You must monitor your plan

Integrate your business plan into your accounting system. Revenues should be budgeted using your current client workload as a base. Project gains and losses at a composite billing rate based upon the skill levels required for each assignment.

Match available staff hours to your current client work schedule. Plan to use unassigned time as "inventory" to be used for in-house projects.

All time should be budgeted and accounted for. This includes all internal firm activities—essential nonbillable activities should be treated as if they are clients and a flexible budget used for other costs.

Keep a separate billing file on each client and make billing a priority activity. The value of your services decreases the longer it takes to get paid for them. You need full accountability for all time—chargeable and nonchargeable, and you can monitor individual productivity by service code including firm business and administration.

A good client accounting system should include the following features:

- ☐ Client work-in-process ledger.
- ☐ Aged work-in-progress analysis.
- ☐ Billing realization.
- ☐ Revenue analysis by work code.

Treat your firm as your most important client. Prepare financial statements on a monthly basis, measure them against the budget, analyze the variances and generate a long-term report. You must learn from the variances and revise your plan at least annually to make sure you keep on track. The economic vitality of small CPA firms will increasingly depend on client responsiveness. There is a bright future for the client responsive firm.

—by Alan R. Morris, CPA  
San Francisco, California

## QUESTIONS FOR THE SPEAKER (POTENTIAL CLIENT LISTS)

April 1983

The following questions were submitted to the panel at the AICPA practice growth conference last October but were not answered due to lack of time. In an attempt to obtain a variety of answers, we asked three practitioners for their viewpoints. The responses are by Ronald L. Frandsen, CPA, of Brigham City, Utah; Christian P. Frederiksen, CPA, of San Francisco, California; and William T. Young, CPA, of Madison, Wisconsin.

*Question:* Do any of your firms develop a list of potential clients? How do you coordinate approaches to these potential clients among your partners?

*Frandsen:* Yes, we do develop a list of potential clients. Any needed coordination of effort and assistance is arranged at our weekly promotion meeting where plans for developing prospects are discussed. The meetings include everyone we expect to be actively promoting our firm and usually last 20 to 30 minutes.

*Frederiksen:* My advice is to limit the amount of energy you spend in making lists of potential clients. Too often, these lists become a clerical nightmare and an excuse for not actively developing

business. If you do make "hit" lists, keep them short and use them only for industries where you have a specialty. Here are some other suggestions for pursuing potential clients.

- ☐ Put them on your mailing list.
- ☐ Send them topical articles.
- ☐ Invite them to industry-oriented training programs, such as AICPA and state society programs.
- ☐ Invite them to your annual tax update seminar.
- ☐ Be patient.

*Young:*

A list of potential clients is extremely useful in focusing the firm's practice development program. We have found that we are most successful when we identify specific potential clients and relate their perceived needs to our ability to satisfy these needs.

We coordinate our approaches to potential clients at regularly scheduled practice development meetings. At these, partners and staff discuss potential accounts in terms of types of business, names of key management people and our relationships with them.

## Section 2

# DEVELOPING NICHEs AND SPECIALIZATIONS

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## PANNING FOR GOLD

June 1987

Smaller local firms that attempt to market audit and accounting services in traditional ways are often at a disadvantage when competing with large CPA firms. The traditional marketing methods typically include offering balance-sheet-oriented audits and management letters, etc., at fees that are often close to or below margin, and providing sales training to a reluctant professional staff. Often, this training causes resentment and resistance on the part of staff members who, before long, return to their old ways of operating.

One solution is for smaller CPA firms to select market niches and then to position themselves in ways that attract clients who are seeking advice in managing their businesses. Initially, such relationships will be based on consultation services which tend to be less susceptible to fee pressures than many traditional services. With the proper techniques, niche marketing can help smaller firms compete on a more equal footing and capitalize on their inherent strengths.

### How to select your target niche

The key to fairly predictable, significant firm growth is to be perceived as being different from and better than the competition in some important aspects. Market segments are affected in different ways and at different times though, by technological, competitive, regulatory, and economic changes. The choice of an industry market niche, therefore, can have a significant impact on the long-term profitability of a practice. Selection of the wrong niche or wrong type of client can be costly.

The selection process is an evolutionary one that starts with the examination of existing industries according to their four-digit SIC code. As a rule of thumb, you want to select a niche that is relatively stable and not dominated by any of your competitors. It is helpful, too, if you already have a client base and contacts in the area you select. In addition, attention should be directed to those areas you can most readily penetrate and serve by consultations.

The first step, then, is to identify the industries you presently serve. This is easy if you have already classified clients by the SIC numbers. Compute the total revenue produced by all clients in each group for the most recent twelve-month period, and determine which are your primary and secondary industries. (The primary industries will be those that constitute a relatively large percentage of the firm's total revenues.)

When choosing an industry market niche, it is important to estimate the potential for future growth among primary- and secondary-industry candidates. Your goal should be to focus on primary industries that have a high growth potential.

One source for estimating growth potential is a publication called *Predicasts* that is usually available in the business reference sections of major libraries. Professional and industry associations also have considerable information regarding the growth trends of the interests they represent. Such information can be useful to you in determining the size of potential niches. And, of course, you will want to talk to your very best clients to obtain their input.

### Putting the cart before the horse

An effective way to select a niche is to develop a preferred, prospective-client profile. In other words, you would decide what characteristics would make a new client desirable. The profile might include clients who pay the full per-diem rate on time; who have experienced fairly rapid growth or have the potential for growth; who have good, effective management; who maintain a good accounting staff; and who are highly visible within their industries. From this profile, identify two or three factors common to these clients—factors that really set them apart from all others—and mark them with an asterisk.

Now give some thought to characteristics that make clients undesirable. What is it about their attitudes, management styles, operating procedures, etc., that you don't like? Some typical undesirable characteristics might be clients who don't follow their CPA's advice, lag behind their industries in growth, haggle over fees, or seek unreasonable services.

You have now prepared a valuable profile—a current picture of the type of client you want to attract. You can use this profile in several ways, including briefing staff, developing new-client acceptance guidelines, focusing on preferred targets, and educating referral sources. The last-named use is particularly important. Professionals are apt to tell referral sources, "If you have any leads, please send them my way." This is not the way to obtain desirable clients. Far better to (be able to) specify the type of client sought.

### Establishing the selection criteria

Ideally, you will want to serve at least two market niches that have counterbalancing business-activity cycles. This will lessen the effect of any unexpected variances on your firm and enable you to better balance the workload. There are many criteria that can be used in the selection of market niches, but I believe the following are among the most important. Consideration should be given to the

- ☐ Number of key clients, referral sources, and contacts currently in that industry.



- ☐ Nature of your competition.
- ☐ Industry's present and estimated future growth trends.
- ☐ Interests of key personnel in your firm.
- ☐ Potential for utilizing the technology that is developed to serve clients in related industries.
- ☐ Estimated costs of identifying and contacting targets.
- ☐ Costs of developing appropriate understanding of the industry and of the technology needed to provide support services.
- ☐ Support and cooperation of partners.

You must also identify the resources you have on hand for serving a particular niche. For example, you should consider whether you can use existing relationships, that is, whether your current organization memberships would enable you to meet prospective clients and contacts; whether you have sufficient industry data and information; what your current image and reputation are within the industry; and what promotional techniques you could use to stimulate interest.

#### Making the decision

It would be nice if there were a simple formula for choosing a niche. Unfortunately, there isn't one. Such decisions are of a qualitative, subjective

nature. Even though you believe your analysis is correct, the decision must still "feel" right. The niche you choose must be one in which you are willing to commit time and resources so that your firm is perceived as being different and better.

Making the decision involves taking calculated risks. You must have confidence in your capability to serve that market, and you must be confident that prospective clients' needs will result in work that is challenging to your staff, and services that are transferable to other clients.

As with any decision, there are opportunity costs involved. To invest time and resources and then have to decide whether or not to abandon a market niche that is not panning out as expected can be difficult. On the other hand, the decision not to pursue a particular niche can result in much second guessing. So, get all the pertinent information that you can, analyze it thoroughly, then check it out again. Remember that either way, the decision you reach is important to the long-term viability of your practice. ☒

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## THE ART AND SCIENCE OF PICKING YOUR NICHE FOR GROWTH

March 1980

There are an estimated 15 million companies in the United States with revenues of less than \$1 million. In comparison, there are only about 140,000 companies having revenues in the \$1 million to \$99 million bracket and approximately 14,000 with sales of over \$100 million. These 15 million smaller companies are the key market (clients and potential clients) for local and regional CPA firms.

Despite the huge size of the market for its services, it is unlikely that any CPA firm will achieve a desired rate of growth without strong management and adequate planning. Regardless of its size, every practice or firm needs a long-range plan that utilizes the firm's special strengths, spells out where the firm wants to be 5 to 10 years hence and shows what resources will be needed to reach these goals.

In long-range planning, it is not the skill in composing the plan that counts; it is the will to carry it through. In most cases, the going is rough in the beginning, and it is necessary to be flexible to accommodate changing circumstances.

In our firm, for example, we update our 10-year long-range plan every year (see exhibits), modify-

ing the figures where necessary. However, inflation is not factored into these figures. Keep in mind when examining the exhibits that, although the figures given are those of a sizable regional firm, the computations are applicable to smaller local firms.

#### *How to capitalize on what you do well*

Knowing where you want to be in 10 years' time is only half the battle. You must also know how you are going to get there. Drawing up a long-range plan will force you to take a hard look at the market you are serving and to determine your firm's strengths and weaknesses in providing needed services. The article, "Defining and Projecting a CPA Firm's Professional Image," in last month's issue of the *Practicing CPA*, has some good suggestions in this regard. Once you have determined these things, here are some ideas for capitalizing on what your firm does well:

- ☐ Prepare a listing of the services you provide and a profile of each client by services rendered.
- ☐ Then, put together a dossier on the expertise and experience of each partner and staff

member. Remember, each partner should already have a niche which should be planned before admittance. (See "Preventing Partnership Problems" in this month's issue.)

- ☐ Analyze this information to determine what skills are missing for each person and how best to make use of the information obtained.

For example, you may find that several of your clients receive a particular service which has great potential for development. You should let your people become experts in this area so that they can fill all clients' needs.

- ☐ At this point, go through your client lists to develop new ideas for specialization. You may find that about 25 percent of your firm's internal growth can be obtained this way.

Current business, social and economic trends emphasize the need for CPA firms to specialize and provide excellent opportunities for expanding market areas. Technological and managerial advances are now coming so fast in nearly every industry that specialists are required to be able to keep up with them. Similarly, the expanded scope and complexity of laws and regulations, and changes in the tax laws and in accounting and auditing techniques, procedures and rules are other reasons for specialization. In addition, the impact of inflation on business and personal financial planning has also created the need for specialists.

You can take advantage of these trends by analyzing their impact on clients and potential clients in your locality to find out what additional services are required. Then take steps to provide them. Check to see what services other firms are offering, and keep in mind that any area of need that you decide to fill might require training and educating staff people. When you are convinced that your firm can offer specialized expertise of the highest professional quality, broadcast the fact to your service areas.

### *The benefits of specialization*

Specialization can be highly beneficial to a firm. It creates a different perspective for what you do, provides opportunities to build the firm's reputation and enlarges your market area. Profitability can be increased with higher fees charged and less quibbling over them. Client retention improves because clients benefit from having their problems identified and solved. And, the opportunities for staff people are expanded. Specialization lets them become motivated, resulting in lower turnover. (You can still weed out those who cannot or will not make it.) If you have more than one office, you can share the expertise among them.

### **A Look at May, Zima & Co. in 1989**

May, Zima & Co. is a firm of 20 offices located throughout the southeastern United States in major metropolitan areas. Total volume is in excess of \$24,000,000, and is derived, for the most part, from services rendered to small- and medium-sized organizations. The firm has handled a number of SEC registrations, and performs audits and accounting services for reporting companies and all types of entities in the health care field. The backbone of the practice is the broad-based services to small- and medium-sized organizations with the full range of tax services complementing its audit, accounting and management services capabilities.

The firm is recognized as a leader in the area of not-for-profit organizations with emphasis on governmental agency and service organizations, such as hospitals, and has also developed an early expertise in computer installations.

The total professional staff of approximately 450 people is guided by the firm's 75 partners and principals. The firm's philosophy of close client contact by the owners has resulted in its having a broad group of partners/principals of relatively young average age. The ratio of staff to partners/principals is five to one. The lack of a large-client practice base has discouraged the development of a staff heavily populated with "junior" accountants. The firm has an outstanding reputation on college campuses and is considered to be a young progressive firm which offers quality training and guidance, and challenge coupled with early responsibility and opportunity.

Economic reward has kept pace within the partnership. Average partner/principal income is over \$100,000 and the top partners/principals are earning in excess of \$150,000. Staff salaries are comparable to those of other large firms, with fringe benefits more favorable for the most part.

The firm has been active professionally both at the state society level and within the structure of the AICPA. Community involvement is the rule for May, Zima & Co., and partners/principals and staff take an active role in all aspects of community life, particularly in the areas of service through clubs, charitable organizations, and local and state governmental organizations.

In summary, May, Zima & Co. in many respects is the same growing, progressive firm that it was 10 years ago—only much larger. The basic firm philosophy has remained intact, and its increased size has enhanced the firm's ability to serve its clients at all levels in a professional, competent manner which combines regional firm professional expertise with local firm client involvement.

### **Assumptions**

The 1979/80 budget was prepared following a conservative philosophy.

The components of the income projections for the years through 1988/89 were computed as follows:

#### Gross income

To each previous year's gross income, a merger/purchase averaging \$175,000 for each partner merged has been added, plus a 15% internal growth factor.

#### Payroll

- ☐ *Professional staff*—29.55% of income (based on the 1979/80 budget, including bonuses) increasing to 38.50% in 10 years. National statistics gathered by the AICPA indicate this to be too high; however, it is unlikely this percentage would decrease with the quality of practice and the partner/principal staff ratio we want to maintain.

### Ten-year Income Projection in Thousands of Dollars

	<u>Budget 1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
Gross income	\$ 5,614	\$ 6,631	\$ 7,975	\$ 9,346	\$11,098	\$12,938	\$15,429	\$17,918	\$20,956	\$24,449
Expenses										
Payroll										
Professional staff	\$ 1,659 (29.55%)	\$ 2,052 (30.94%)	\$ 2,754 (34.53%)	\$ 3,474 (37.17%)	\$ 4,199 (37.84%)	\$ 4,911 (37.95%)	\$ 5,880 (38.11%)	\$ 6,853 (38.24%)	\$ 8,043 (38.38%)	\$ 9,414 (38.50%)
Paraprofessional staff	125 ( 2.23%)	148 ( 2.23%)	171 ( 2.15%)	187 ( 2.00%)	203 ( 1.83%)	221 ( 1.71%)	241 ( 1.56%)	254 ( 1.42%)	270 ( 1.29%)	284 ( 1.16%)
Administrative staff	371 ( 6.61%)	431 ( 6.50%)	478 ( 6.00%)	514 ( 5.50%)	555 ( 5.00%)	647 ( 5.00%)	771 ( 5.00%)	896 ( 5.00%)	1,048 ( 5.00%)	1,222 ( 5.00%)
Other expenses	1,693 (30.16%)	1,790 (27.00%)	1,914 (24.00%)	2,056 (22.00%)	2,442 (22.00%)	2,846 (22.00%)	3,394 (22.00%)	3,942 (22.00%)	4,610 (22.00%)	5,379 (22.00%)
Total	\$ 3,848	\$ 4,421	\$ 5,317	\$ 6,231	\$ 7,399	\$ 8,625	\$10,286	\$11,945	\$13,971	\$16,299
Net income	\$ 1,766 (31.45%)	\$ 2,210 (33.00%)	\$ 2,658 (33.00%)	\$ 3,115 (33.00%)	\$ 3,699 (33.00%)	\$ 4,313 (33.00%)	\$ 5,143 (33.00%)	\$ 5,973 (33.00%)	\$ 6,985 (33.00%)	\$ 8,150 (33.00%)
No. partners/principals	26	28	33	39	44	49	56	60	66	75
No. professional staff	73	90	110	130	156	183	220	257	303	355
No. paraprofessional staff	9	11	12	13	14	15	16	17	18	19
Average net income per partner/principal	\$67,900	\$78,900	\$80,500	\$79,900	\$84,100	\$88,000	\$91,800	\$99,600	\$105,800	\$108,700
Average income of professional staff	\$22,700	\$22,800	\$25,000	\$26,700	\$26,900	\$26,800	\$26,700	\$26,700	\$ 26,500	\$ 26,500
Average income of paraprofessional staff	\$13,900	\$13,500	\$14,200	\$14,400	\$14,500	\$14,700	\$15,000	\$15,000	\$ 15,000	\$ 15,000

### Computation of Partners and Principals

	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
Number of partners/principals—September 30	22	26	28	33	39	44	49	56	60	66
Partner changes at October 1										
Merged partners	0	1	2	1	2	1	2	1	2	2
Retired partners	0	0	0	0	0	0	0	(1)	(1)	(1)
New partners	2	1	3	4	3	4	3	4	5	8
New principals	1	0	0	1	0	0	2	0	0	0
Total at end of year	26	28	33	39	44	49	56	60	66	75
Gross billing per partner/principal	\$215,900	\$236,800	\$241,700	\$239,600	\$252,200	\$264,000	\$275,500	\$298,600	\$317,500	\$326,000

### Computation of Number of Professional Staff Based on Income in Thousands of Dollars

	<u>Budget 1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
Estimated income	\$ 5,614	\$ 6,631	\$ 7,975	\$ 9,346	\$11,098	\$12,938	\$15,429	\$17,918	\$20,956	\$24,449
Less partners'/principals' portion (1)	1,572	1,857	2,233	2,617	3,107	3,623	4,320	5,017	5,868	6,846
Balance to determine staff requirements	\$ 4,042	\$ 4,774	\$ 5,742	\$ 6,729	\$ 7,991	\$ 9,315	\$11,109	\$12,901	\$15,088	\$17,603
Divided by average amount of billing per staff member (2)	\$47,000	\$47,000	\$47,000	\$47,000	\$47,000	\$47,000	\$47,000	\$47,000	\$47,000	\$47,000
Number of staff	86	101	122	143	170	198	236	274	321	374

(For the purpose of finding the average income of the professional staff in our ten-year plan, the average of these two computations is used.)

- (1) For the purpose of this computation, the firm-wide 1978/79 ratio was used which is 28%.  
 (2) As the firm expands, this amount may change; however, for the purpose of determining how many people to hire, \$47,000 is used. This is based on the amount of fiscal year 1978/79 fees generated by total professional staff, including paraprofessionals and excluding partners/principals.

- *Paraprofessional staff*—The employment of nine paraprofessionals with an average annual income of \$13,900 is budgeted for fiscal year 1979/80. The number employed will likely increase to 11 in 1980/81, and their average annual income will increase to \$15,000 in six years.
- *Administrative*—6.61% of income (based on 1979/80 budget) declining to 5% over four years. National statistics gathered by the AICPA indicate this percentage should be 5.2% of income.

#### Other operating expenses

30.16% of income (based on the 1979/80 budget, excluding partners'/principals' retirement payout). This is too high and will have to be reduced gradually. We must strive to stay within the 1979/80 budget and even cut the percentage if possible. Therefore, for income projection purposes, succeeding fiscal years' other operating expense percentages have been reduced to the following:

1980/81	27%
1981/82	24%
1982/83	22%

It is assumed these expenses will level out to 22% of income in all future years. National statistics gathered by the AICPA indicate this percentage should be 18.3% of income.

#### Net income

31.45% of budgeted gross income for 1979/80. The above assumptions of productive payroll leveling out at approximately 40% of volume, nonproductive payroll leveling out at 5% and other operating expenses leveling out at 22% will eventually produce net income of 33%. This seems to be a desirable and attainable level of net income. National statistics indicate it should be 38%. While this percentage would be more desirable, achieving 33% should be our first goal.

#### Number of partners and principals

As of September 30, 1979, the volume stands at \$205,100 per partner and based on the adopted budget for fiscal

year 1979/80, will be \$215,900 per partner. Based on estimated costs of operating our firm, the volume per partner will need to increase to provide a satisfactory level of average income per partner. This long-range plan is based on the goal of achieving a satisfactory level as soon as possible. Because the level is affected by economic changes, no specific amount is identifiable, but it appears that approximately \$300,000 of volume per partner will come close to what we would need under our long-range plan in the present economic conditions. (See Computation of Partners and Principals.)

#### Number of professional staff

Computed as per the attached schedule.

#### Acquisitions/mergers

Included in this plan is one acquisition/merger a year for the next nine years. For purposes of income projections, each year's acquisition/merger is assumed to take place on October 1.

There are some important owner incentives to specialize as well. These include a more rapid rate of firm growth, larger net income and the elevation of daily tasks into the glamour areas of service. By providing glamour, you inspire staff people and future partners.

Specialization and long-range planning should be started as soon as possible. We picked a niche for ourselves when the firm consisted of two partners and four staff members. We now think that was much too late.

—by Donald P. Zima, CPA  
Atlanta, Georgia

## PLANNED SPECIALIZATION: AN OPPORTUNITY FOR GROWTH

December 1977

At first glance, planned specialization might seem to be an overly ambitious concept to the practitioner in a local firm. In reality though, it is not as far removed as it might at first appear. Most of us do specialize within our profession anyway. Some CPAs become tax experts, others concentrate on auditing or management advisory services, or perhaps administrative duties.

Still another kind of specialization, very familiar to the local practitioner though he may not think of it in those terms, is industry specialization. For example, the CPA might find himself becoming quite an expert in the special accounting needs of farmers who, because of local conditions, may also specialize in a narrow segment of their industry.

The same is true of many other industries, and if you have one or two clients in a specialized industry, you may find that your firm has developed skills that could be really capitalized on with proper planning. Or, you may be in a locality that has a number of firms in one particular industry—a situation that calls for a specialist. Though, as mentioned before, specialization can take place within an accounting firm through technical and departmental divisions, this article will be concerned mainly with industry specialization, since it is more appropriate to the interests of many local practitioners.

*Why specialize?* Because it can become essential if you wish to retain your growth clients, grow with them and serve their increasing needs. It

also gives you exposure to a larger and broader range of clients. You find too, that as your firm grows, there is an inevitable division of duties and expertise. With the present information explosion and the greater need for knowledge, it is difficult to remain a generalist. Also, if you do a good job, your satisfied clients, always the best source of new clients, will probably refer you to others, as may other CPAs. Also, there is the chance to build your firm's reputation, charge higher fees, and attract and keep a higher quality staff.

**When?** The sooner the better. An important point to remember is that the client does not expect you to be an expert in everything.

**How?** There are four main steps to success in any successful organization or project. These are:

- ☐ **Creating and planning.** It is important to recognize that there will be differences in personal desires and objectives among the partners and staff members, so there must be some give and take when formulating a plan. This is why it is so important to have a firm philosophy—then everyone cooperates. It is also very important to put the plan in writing. Keep creating and planning, and as things change, so should your plan.
- ☐ **Organizing.** Right from the start the motto should be—"the firm is king and the client belongs to the firm." This ensures standardization. When assigning responsibilities, make the best use of your people and their strengths. People must be motivated, so don't assign them to tasks that they don't want to do.
- ☐ **Executing the plan.** The idea may be simple, but the execution is most important. The key is teamwork. It is essential to build a team and to keep it motivated. Every team must have a leader and someone must be in charge.
- ☐ **Reporting and feedback.** Set up a system for reviewing and reporting. Communication and dialogue must be maintained with the staff and it should be informed of what is going on in the firm at all times.
- ☐ **Keep analyzing.** Learn from your successes and failures. But don't be afraid to fail because you can't succeed if you don't try. Execution and analyzation are all important.

In the organizing process you must develop a program. This will require some research and you will have to determine staff needs. You must de-

cide whether the present staff is adequate and if it has the necessary skills. Staffing needs should be met from within the firm if possible, so you must determine if the necessary skills can be developed with the right training and education. If you have to recruit, get good people. If the hiree is not as good as existing staff a morale problem will arise. Pay your good people well to motivate them. Don't let the cost and time involved put you off. The staff should be made aware of the firm's capabilities and there should be regular practice development training sessions. You should train the staff to be specialists—both technical and industry. Staff is an often overlooked source of practice development, and it pays to keep personnel motivated.

Try to specialize in industries where accounting concepts may be different. Some examples of these are:

1. Extractive industries.
2. Securities dealers.
3. Government agencies.
4. Insurance.
5. Health care.
6. Banking and finance.

The key to building your image as a specialist is in providing quality and timely service. Good communications are essential to good client relations. This can be achieved in the following ways:

- ☐ Send attractive reports that contain useful statistical information.
- ☐ Mail client newsletters. For firms that do not have their own, the *CPA Client Bulletin*, available from the AICPA, is a good substitute.
- ☐ Conduct client seminars.
- ☐ Lecture to trade associations and other organizations.
- ☐ Write in technical journals.
- ☐ Establish personal contacts and become involved in community activities.

A firm does not have to be large for specialization to be feasible or for a program of practice development to be drawn up. And developing an image of expertise in a particular industry is not as difficult, nor as slow as might be believed. All it needs is one determined person and a well thought-out plan. For the local practitioner it could prove to be an excellent opportunity for growth.

—by Mahlon Rubin, St. Louis

## SPECIALIZATION = GROWTH

November 1978

*Does a CPA firm specialize because it is growing, or does it grow because it is specializing?* While nearly every CPA firm wants to grow, growth is not always defined as more fees, personnel or offices. Growth can also mean greater net income from the same gross fees, an increase in personal satisfactions (e.g., more free time for professional activities or family) or upgrading the quality of services to clients by higher grade professional staff.

To achieve growth, no matter what the definition, a local accounting firm must offer services that are relevant to the changing needs of its clients. Our complex economy demands ever increasing levels of expertise from all professionals, including public accountants. Both present and prospective clients will be lost by the smaller practice unit which either fails to develop its own areas of specialty or doesn't utilize specialized help.

Business trends which emphasize the need to specialize include

- ☐ Technological and managerial advances in nearly every industry.
- ☐ Expanded scope and complexity of laws and regulations imposed by government.
- ☐ Rapid changes in accounting and auditing techniques, procedures and rules.
- ☐ Inflation's impact on business and personal financial planning.

During the last decade, several surveys have sought to determine whether CPAs believe recognition and accreditation of specialty areas within the profession are desirable or necessary. In every survey checked, the majority of respondents rejected formalized recognition of specialty areas within the accounting profession. Most of the opposition came from smaller practice units which object because they believe that

- ☐ The public would be confused rather than aided by the designations.
- ☐ Specialties would be difficult to define clearly and distinctly.
- ☐ The profession would become fractionalized.
- ☐ Large firms would benefit at the expense of smaller ones.

However, a case can be made that specialty designations could significantly help the small firm and the public by providing a standard for comparison. Lacking such a standard, it is not unreasonable for the public to assume that only well-known larger firms have the resources to provide specialized services.

To specialize is to concentrate on a special branch of study or work. By this definition, nearly every accountant in public practice specializes.

For example, an accountant may concentrate on governmental auditing, agricultural taxation, accounting systems consultation, financial institution auditing, estate tax and personal financial planning, etc.

However, rarely do two firms or individuals specialize in precisely the same areas. This makes it difficult to develop a meaningful list of accounting specialties. Listings are either too broad or too detailed, or become obsolete before they can be formalized.

Though this is perhaps the strongest argument against formalized recognition of specialties within our profession, it is not an argument against individuals or firms pursuing specialized areas.

While specialization is frequently thought to be narrow, restrictive and undesirable, the actual practice of a specialty does not necessarily yield these results.

In practice, specialization merely enables a firm or an individual to focus energies on an area of particular interest or special ability. Without such a focus, one is relegated to having little more than superficial knowledge in many general areas.

If we accept the proposition that some degree of specialization is inevitable and eventually occurs in every growing firm, it makes sense to plan and organize specialization efforts. The sooner a firm recognizes functional and industrial specializations, the sooner it will realize the following benefits:

- ☐ *Higher profitability.* The marketplace tends to seek out the services of specialists and to quibble less over their fees. The generalists, on the other hand, must compete on the basis of price, rather than uniqueness of product or service.
- ☐ *Greater client service.* Although the hourly rates of specialists are usually higher than that of generalists, the total fee for a given engagement is often about the same. However, clients benefit from having their problems solved quickly and more creatively by specialists in the area of concern.
- ☐ *Lower personnel turnover.* Firm growth through specialization expands the opportunities for individual staff members.

In the early stages of a CPA's career, a wide range of experience is normal, but after two or three years, many accountants nar-

row their fields of interest to certain industries and/or functional areas. It is then that work experience is most intensive and progress most rapid. Personnel exposed to the greater challenge of a specialty are less inclined to seek opportunities outside the firm.

Since it is not feasible for a small firm to develop all the specialties it would like, these choices should be narrowed to those services most needed by existing clients. This can be done by developing a profile of these clients, categorized by industry and types of services rendered.

By increasing its ability to provide the services they need most, the firm will not only become indispensable to important, existing clients but will vastly improve its referral potential. Building on present services and industries will provide an easy way to develop growth specialties and should produce immediate benefits.

A firm may also select an industry in which to specialize by researching the market in its geographic area. Some industries are stagnant and others are dominated by a few giant companies. Neither will provide much growth opportunity for the smaller CPA firm.

However, by reviewing regional business newsletters and trade bulletins, the local CPA firm may find valuable data concerning growth rates, size and volume of specific industries and companies.

Another way to generate ideas is to leaf through the Yellow Pages, noting the types and total number of businesses listed. But your firm's market research should also include information about the nature of practice of other CPAs in the area because their specialties could directly influence the growth available to your firm.

Finally, the firm might consider employing the services of a professional marketing consultant to assist in the search for specialty areas.

Once specialty areas are identified, time and money must be spent on building superior com-

petence through the training and education of staff. New staff members should be made aware of the firm's special capabilities and receive adequate training. Resources must also be devoted to communicating these capabilities to others through, for example, speeches and articles.

In the process of defining specialty areas, it is equally important to determine which services the firm will not attempt to handle. A common management error made by smaller firms is the attempt to be all things to all clients.

Clients understand and respect the need for outside specialized help on particular problems and a firm should adopt a policy of rendering only those services for which it is eminently qualified. This will necessitate developing a referral bank of firms and consultants that can provide expertise in other areas.

While it may be debatable whether or not the public and the profession's interests are served by formal designations, it is fairly obvious that broad-based support of specialization programs does not presently exist. Lacking such support, formal recognition of accounting specialties is unlikely in the near future.

In managing our practices, however, it really shouldn't matter whether we approve or disapprove of specialty designations. Specialization in all phases of our daily lives and our profession is here to stay. It exists. It is a reality.

The astute practitioner cannot afford to hide behind the lack of a formal program or to worry about definitions and structure. The question facing every practice unit is not whether to specialize, but rather when and how. Hopefully, this article has helped create an awareness of this situation.

by Dale W. Suran, CPA  
Portland, Ore.

## SPECIALIZATION FOR THE LOCAL FIRM

October 1982

*The advantages of specialization to the local firm have been discussed at many AICPA conferences on managing an accounting practice. The following comments are based on various presentations at these conferences by Joseph A. Puleo, CPA, Hamden, Connecticut; Rebecca M. Lee, CPA, Birmingham, Alabama; and J. Donald Riney, CPA, Owensboro, Kentucky.*

Specialization—the concentration of your time and effort in one direction—can provide you with independence, security and a comfortable living. Although you may not have given the subject much thought, you are probably specializing to some extent now. For example, you may not become in-

volved in anything that makes you uncomfortable or with which you are unfamiliar. And if you have a managing partner, there is probably some degree of specialization in your firm.

Other professionals specialize, such as doctors who have formally recognized areas, and lawyers (on a less formal basis except for admiralty and patent law) because there are several advantages to it. These include the pride and satisfaction in knowing that you do a good job and the reduction in risk because your talents aren't spread across a broad area. Competition tends to be reduced, too, as your expertise in a particular field becomes known.

Clients are satisfied because you do a better job and you find you can command a higher rate per hour and work fewer hours per week.

There are disadvantages as well. Client allegiance becomes personal and nontransferable and growth and profit can be limited if the jobs are one-shot engagements. Also, you won't get general-business clients (general business is not what you are specializing in) and there may be a stigma of not appearing to be a well-rounded professional.

To accomplish specialization, you and your partners should write down what you like to do and what you are good at. You should discuss your firm's strengths and weaknesses, go through your client lists to determine how many clients you have in a particular industry or occupation or how many are receiving a particular service and decide if there is potential for development. The idea is to develop and become known for having a distinctive competence in an industry or service. You can publicize your skills by writing articles for the newsletters of your clients' trade associations and by giving speeches at their meetings. You will find that word of your expertise spreads.

With five construction-industry clients, one firm had developed considerable knowledge of that business and decided to specialize in it. They knew that banks view construction as a feast-or-famine industry and tend not to have much faith in the financial data usually provided. However, the firm did not believe that construction has to be an erratic industry—it just needs sensitive accountants. So they developed booklets and held seminars to explain to people in the industry what they could do for them.

If you know a lot about a particular industry, you will find many opportunities to increase your services to clients in it. Here are some of this firm's ideas which can be used no matter which industry you choose to specialize in.

- ☐ An analysis of financial and operating statements can be particularly helpful to clients, both in the management of their firms and in obtaining loans from banks. In many instances you already accumulate or have access to the necessary client and industry data. With this information, it is an easy process to prepare comparative statistics that show increases and decreases, ratios and percentages, etc., and how the client stacks up against other companies in the same industry.
- ☐ You can become involved in designing and installing clients' accounting systems where there may be special considerations peculiar to the industry. Set up books of original entry and general ledgers for them that expedite the preparation of financial statements. You can also revise the system to conform with the uniform chart of accounts for an industry or regulatory

### Exhibit 1

Dr. Michael Jones  
Projected cash requirements  
to December 31, 1982  
Practice commencing October 1, 1982

Start-up expenditures	
Equipment	
Medical (list)	\$12,000
Office (list)	4,700
Supplies	
Medical records	1,200
Office	
A/R system	600
Cash disbursements	200
Stationery, appointment book, etc.	500
Medical supplies	<u>1,000</u>
Total	<u>\$20,200</u>
Monthly expenditures	
Salaries (including payroll taxes)	\$ 2,300
Medical supplies	100
Office supplies and postage	100
Rent	600
Utilities	100
Dues and licenses	50
Travel and entertainment	200
Auto expense	200
Malpractice insurance	800
Other	200
Draw	<u>1,000</u>
Expenditures for 30 days	<u>\$ 5,650</u>
Expenditures for 90 days	<u>\$16,950</u>
Total cash requirements	<u>\$37,150</u>

Note: Does not take into account cash collections during first 90 days.

body and can assist clients in the preparation of budgets and forecasts.

- ☐ You can provide a valuable service to clients if you use your knowledge of their industry to help them with the presentation and explanation of financial statements at conferences and meetings. Charts and graphs can be useful in this regard (see "Graphics to Help Managers" in the August 1982 *Practicing CPA*). Again, you probably have the data and can go to outside firms for the artwork.
- ☐ If you are current with developments affecting a particular industry, another area where you can quite easily provide a service is in the research and evaluation of alternative methods of handling a transaction for its tax consequences and effect on finances. This might involve buy-or-lease or make-or-buy decisions, a change in fiscal year, etc.
- ☐ Again, with the help of your tax department, you may be able to assist a client in the purchase or sale of a business by preparing statements analyzing its financial condition, taking into consideration the economic outlook for an



industry. You can also make a cost analysis of operating details including solutions to such problems as a proper basis for the distribution of factory expenses and overhead or checking the indirect costs of subcontracted work.

- ☐ With greater knowledge of the industry they are in, you can more easily help clients determine whether or not they really need a loan and, if so, what sort of financing to get. You can find sources of capital and credit for them, calculate the approximate cost and develop all the information a lending institution will need in order to make a loan.

Practitioners tend to diagnose clients' problems in terms of their own technical skills. What is really needed is a good general business background and good common sense. Get the client, your tax, audit and management advisory services partners and staff involved. Clients are not always willing to make the necessary changes so try to get them to make suggestions.

Another idea is to specialize in providing services to other professionals such as doctors, dentists, architects and civil engineers. These are often cash-basis taxpayers who, as a group, can form a unique and potentially significant segment of an accounting practice.

## Exhibit 2

Drs. Cradle and Grave  
Practice productivity and statistical data

Month of \_\_\_\_\_

	<u>1983</u>		<u>1982</u>	
	<u>Month</u>	<u>Year to date</u>	<u>Month</u>	<u>Year to date</u>
Beginning A/R				
Patient charges	\$ _____	\$ _____	\$ _____	\$ _____
Patient receipts	_____	_____	_____	_____
Adjustments (note 1)	_____	_____	_____	_____
Ending A/R	\$ _____	\$ _____	\$ _____	\$ _____
Collection percentage	_____%	_____%	_____%	_____%
Adjustments—percent of patient charges	_____%	_____%	_____%	_____%
Days of patient charges contained in ending A/R	\$ _____	\$ _____	\$ _____	\$ _____
A/R ledger cards				
Date last taped	____/____/____			
Amount per tape (note 2)	\$ _____			
Amount per A/R day sheet	\$ _____			
Number of patient visits				
New	_____	_____	_____	_____
Other	_____	_____	_____	_____
Total	_____	_____	_____	_____
Number of insurance forms processed				
Medicaid/Medicare	_____	_____	_____	_____
Blue Cross/Blue Shield	_____	_____	_____	_____
Other	_____	_____	_____	_____
Total	_____	_____	_____	_____
Number of insurance forms outstanding at end of month	_____	_____	_____	_____
Date of oldest claim	_____	_____	_____	_____

Note 1: Supported by detailed listing to be approved by physician.

Note 2: Attach tape for observation by physician.

It is a misconception that professionals are difficult and unprofitable to service. They tend to be strong-willed people but fee realization is very high. And your practice is not vulnerable when one of these clients is lost because individually the fees are not large. Satisfied professionals rank with the best at spreading word of your services. Nevertheless, there is a need for practice development efforts directed specifically to this group.

Financing a beginning practice is troublesome to many professionals because they don't know how to project their cash requirements (see exhibit 1). This is where you can help. You can also set up bookkeeping systems (a simple one-write system is often adequate) and become involved in developing their office policies and procedures manual and client/patient and personnel management systems.

Your clients' personnel must produce meaningful

financial data. In exhibit 2, for example, the CPA has designed a form for some doctors that shows practice productivity and statistical data. You might find you can help a doctor with scheduling problems or develop a standardized system so staff can retrieve all needed patient data before an appointment.

There are many other services you can perform for professionals. They include drawing up job descriptions and compensation arrangements, helping them develop staff manuals and incorporate their practices. First, decide which group of professionals you wish to serve and what things you can do for them that will have meaningful impact. Then, do a financial checkup before providing any services. Look at cash disbursements, monthly statements and meet the office personnel. Eliminate any misunderstandings.

## ONE FIRM'S SPECIALIZATION PROGRAM

*December 1984*

The basic purpose of all businesses is to survive, meet demands and earn a suitable return on investment, tomorrow as well as today. Business owners, therefore, need CPAs who clearly understand their businesses and their goals and who can also offer advice on the tools and services they need to meet their objectives.

We believe that to help our clients meet their goals and the demands of their competitive environments, we should be a full-service CPA firm that offers a broad spectrum of specialized business services as well as the more traditional ones. We believe, too, that if a CPA firm is committed to its clients' goals for profitability and growth, it must have the same goals for itself. Growth and profitability offer the only way that a CPA firm can attract and retain the type of staff that is knowledgeable about clients' businesses and industries and that can advise clients of any developments that affect them.

Recognizing the profound changes affecting the profession—changes such as a highly competitive environment where little competition previously existed and the need for new services—we spent a great deal of time and effort developing a plan for the future growth of our firm. We committed ourselves to adjusting to meet the changing requirements of existing and prospective clients.

Needing firm-wide interest in shaping a plan that met our objectives, we held staff meetings and solicited suggestions from all employees. The result was that we received many valuable and constructive ideas from people throughout our organization.

A close look at all of our departments and offices confirmed our belief that traditional audit services alone might not provide a satisfactory base for fu-

ture growth. While we had, for many years, provided numerous services beyond auditing, these had never really been identified, packaged and marketed.

We also recognized a need to do some external research. Using our client list as a base, we were delighted to learn that perception of our work was very favorable. Of even greater significance, though, was the identification of services clients believe they will need from their accounting firms in the future. We believe it safe to assume that our clients are typical of the broad business universe and that the services they identify as needed in the future will also be required by prospective clients. Gearing up to serve such areas should, therefore, enable us to grow with existing clients and make us more attractive to prospective ones.

With these steps accomplished, we established two task forces—one on compliance and review procedures and the other on specialization. Although the task force on compliance and review was the less visible of the two, its work was clearly of equal importance. If we were to expand our accounting and auditing base, it was essential that this be done in a manner that was consistent with the quality standards we expect to characterize all aspects of our work. We had to make sure our quality-control document and review procedures were updated.

The task force on specialization identified five specific areas that we targeted for growth—corporate financial services, data processing consulting, corporate financial management, corporate operational management and personal financial services. In addition, we identified various industry specializations. In all areas, the emphasis is on

- ☐ Professional development to assure that quality standards are maintained.
- ☐ A disciplined approach to marketing the firm.
- ☐ The need for everyone in the firm to be alert to opportunities to offer multiple services to clients.
- ☐ The desirability of exploiting the potential of industry specialties such as insurance and construction.

We retained a public relations firm to help us with marketing materials such as brochures and with our public relations programs and seminars. Our goal was to change the firm's image and let people know that we are a team of business counselors and that we are interested in our clients' welfare and in our own professional growth and development. To do this, we undertook to

- ☐ Expand the knowledge of staff members so that they could better recognize service opportunities and increase chargeable time.
- ☐ Develop a team approach to both selling and providing services.
- ☐ Expand services to present clients.
- ☐ Gain additional firm visibility through industry specialization, developing specialists and formalizing business consulting programs.
- ☐ Increase the rate of client acquisitions through referrals.
- ☐ Develop marketing tools. The first product developed is called coMMtab™, a sophisticated but understandable computer package that compares many of our clients' operating ratios to industry standards. In addition, we play "what if" with certain of the ratios to demonstrate to our clients the benefits of improving various operating ratios.

We began our program with increased staff training directed toward selling the firm's consulting programs and industry specialties. These individuals are supported by technical and industry coordinators who are competent both to perform and supervise work in their particular areas. The pro-

cess involves a review of client lists with individual partners and managers, the development of client profiles and the preparation of plans for improving or expanding services to these clients.

Next, we identified clients with growth or referral potential. Our client service teams concentrating in this area meet the client or prospect to identify and promote these needed services.

With regard to industry specialties, the industry coordinators perform market research to determine a specific industry's potential. They assess the

- ☐ *Nature of the industry*—the growth potential and maturity; future direction and potential for government regulation; typical owners, decision makers and size of entities; and the number and size of potential clients.
- ☐ *Firm's involvement with the industry*—the number and names of clients and referral sources, client profiles and pass-through benefit assessments.
- ☐ *External environmental factors*—the existence and identification of trade associations and industry shows, government regulations pending or existing, and whether or not firms in the association of CPA firms to which we belong can assist us in entering this industry.

Once the industry coordinators have completed their reviews, we prepare plans to increase our involvement with those industries identified as having strong potential. The final segment of the program deals with the strategy to gain general firm visibility and increase referral activity. This is accomplished through a public relations program that utilizes brochures and seminars, and by increasing our contacts with key prospects or referral sources.

In concept, the plan is comprehensive. We identify the programs, train the personnel and market the programs. This process increases our familiarity with our clients and their needs and provides visibility to those who do not know us. ☒

—by Lowell A. Baker, CPA  
Cleveland, Ohio

### Section 3

## TRAINING STAFF FOR PRACTICE DEVELOPMENT

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## TRAINING FOR PRACTICE DEVELOPMENT

March 1979

What with ever-increasing demands on their time and with a certain amount of natural firm growth during the last few years, many partners and staff people may be rather complacent about practice development. However, in order for growth to continue, practice development should be planned and a training program started.

The first step is to put practice development into perspective by comparing the number of people in the firm who take professional education courses to the number who go to practice development conferences and workshops.

In most cases, it quickly becomes obvious; whatever practice development there is just happens. Unfortunately, there is only one way to coast in any endeavor and that is downhill.

You should also try to find out if partners and staff members allow the quest for technical proficiency and chargeable hours to work against practice development. This does not have to be so.

Is there a general fear of not being successful in practice development? If so, this is where sales training can help. To some degree, all CPAs are in sales, i.e., they are in the business of selling their professional expertise. It is the firm's responsibility to teach them how to become better salespeople.

Since we can all learn to be better at meeting people, no one should be excluded from the practice development training program. If we all meet enough people and project the right image, we will get business. The most successful firms don't mind change; they believe it is necessary for growth.

### How to set up your training program

- ☐ Put a partner who is a proven business-getter in charge of this program. He or she will need strong organizational ability and should set up the program in accordance with the firm's long-range growth plan and philosophy of practice.
- ☐ Training meetings should be scheduled regularly. As with partners' retreats, these meetings may be more fruitful if held in a relaxed atmosphere at a location away from the office. The partner-in-charge should develop an agenda, list all items of possible discussion and make sure that the meeting follows the prepared plan. (Readers might like to refer to the article "How to Run a Meeting" in the March 1978 issue of the *Practitioner*.)
- ☐ All partners and staff members should fill

out a monthly contact report. The contact's name, the type of meeting, who was present, what was discussed, etc., should be recorded, and the form should permit classification of contacts by clients and nonclients. A planned-call information form is another useful aid. (See *exhibits*.)

We place heavy emphasis on contacts with present clients since they have historically been our sources of expanded business.

### What to cover at training sessions

These meetings can open CPAs' eyes to a new area of public accounting. Our first session was received most enthusiastically by the staff. We told them what had worked in the past, why this was so and how to do it.

The staff will be greatly helped if the firm

- ☐ Provides examples of new business sources.
- ☐ Furnishes a list of activities that can lead to new business.
- ☐ Holds discussion sessions in which people can describe how they acquired new clients.
- ☐ Develops a skit showing how to respond to the most frequently asked questions about the firm.
- ☐ Prepares a list detailing the firm's outstanding qualities.
- ☐ Rewards staff members who bring in new business and gives them adequate recognition within the firm.

### Ways to develop and maintain clients

All staff members can help to develop clients—even those who think they are strictly technical specialists. The job requires a knowledge of the firm's services and an ability to talk enthusiastically about our work. Most importantly though, it requires a commitment from each person.

Present clients are the best source of growth for a CPA firm; they are familiar with the firm and know its virtues. Obviously, some clients have more development potential than others and they can be graded accordingly. (See "Client Evaluation" in the December 1978 issue of the *Practitioner*.)

Each client engagement should be important to us and should not be undertaken unless it presents a challenge and opportunity to someone within the firm. A job is not just a matter of debits and credits—clients should be given a little extra in the way of service, a newsletter, for example.

- The development of clients can be helped by
- ☐ Getting to know them socially. Clients like this, and you will be surprised at how often these occasions turn into billable time.
  - ☐ Buying from them where possible.
  - ☐ Letting them know if you take a CPE course in their field of interest.
  - ☐ Being a little more aggressive. Clients like to see this quality in their business doctor.
  - ☐ Keeping them informed about audit and tax developments affecting their own affairs.

Some other good, long-term approaches to practice development include the following:

- ☐ Organize conferences for a group of clients who are in similar lines of business or in the same profession. For example, we held a conference for clients who are doctors, and the discussion centered around tax shelters and related subjects.
- ☐ Have a discussion on personal financial statements with clients and their bankers. This can result in a worthwhile exchange of ideas.
- ☐ Set up a conference for bank loan and trust officers. They have to review financial statements so the talk could be on subjects such as audited/unaudited financial statements.

Other opportunities to sell the firm's services are presented at lunches for clients and their key advisers, including their bankers, attorneys and their insurance agents.

#### Ways to acquire new clients

Good client and practice development is a long-term process. There is no such thing as an instant image—it's a slow and constant effort.

Local charities, social clubs and trade associa-

tions are organizations that immediately come to mind as ideal for meeting potential clients. Join clubs by all means, but plan to contribute to the activities. Don't join for the sole purpose of obtaining new business. The soft-sell approach takes longer, but the results are longer-lasting.

Useful contacts can be made at trade associations, particularly if committee work is undertaken. Giving speeches and writing articles for the association provide good exposure; speaking at clients' business conventions and seminars will add prestige as well as promote a greater understanding of their industries.

Other good sources are salespeople (treat them courteously and always have a partner meet them), outside directors of clients and former employees (they know the firm as well as anyone and can explain its capabilities to potential clients). A client newsletter can also stimulate a considerable amount of new business. The *CPA Client Bulletin*, available from the AICPA, is a good substitute, or can be combined with an existing client letter.

The responsibility of the partner-in-charge of practice development (who is not necessarily the managing partner) is to motivate and to teach all members of the firm to play a part in the firm's growth. This is a position that requires leadership and active participation.

Practice development must be put in its rightful place in the firm and given a relatively high priority. The program should be formalized, the AICPA *MAP Handbook* used for ideas and a logo adopted to aid the firm's identity. Above all, remember the acronym TLC, and that it should stand for tender loving care, not total lack of concern.

— by *Jake L. Netterville, CPA*  
Baton Rouge, Louisiana

#### **Exhibit 1**

#### **MONTHLY CONTACT REPORT**

Name	Number	Month		
<b>CLIENTS</b>				
Client	Type of Meeting	Those Present	Remarks	Expense
<b>NONCLIENTS</b>				
Name(s)	Type	Affiliation	Referral	Expense



## WHY STAFF DOESN'T BRING IN NEW CLIENTS

June 1988

Even with the offer of various financial incentives, few firms are paying out much money to young staff members for bringing in new business. There are some understandable reasons for this.

If you think back to the time in your career when you were a staff accountant, with whom were you socializing? Most likely, it was with people much your own age, who probably held similar staff-level positions in the organizations for which they worked. If this was the situation, it is unlikely that your friends and acquaintances were in a position to sign up the services of CPAs and other professionals. It is the unusual staff person who has the exposure, community standing, and reputation needed to bring in new, high-quality, full-service clients.

So what can staff members do to contribute to the marketing efforts of their firms? There are several suitable activities. Let's look at a few. Staff members can, for example,

- ☐ Begin building their reputations and taking steps to become known in the community. They can thereby begin developing a circle of contacts that will pay new-business dividends sometime in the future.
- ☐ Start developing communication skills, so that when the opportunities arise for public appearances, they will make a good impression.
- ☐ Be trained and encouraged to identify added service opportunities for present clients.

Surveys consistently show that a major client complaint is lack of service. That is, clients believe there are services that their CPAs could be performing for them, but are not. A firm's *professional* staff represents its best line of defense against that client perception. Staff accountants spend the majority of the firm's time at client locations. They have greater

opportunities than anyone else in the firm to identify areas of client need. Basically, what the staff requires is a little time and a lot of encouragement.

While fulfilling year-end service responsibilities, for example, staff might take the time to look around the client organization and listen to its personnel. Sometimes, even a chance remark may indicate a problem the client is having, and a service opportunity for the CPA firm. You may also wish to have the in-charge accountant periodically fill out a questionnaire regarding additional services the firm might render as part of the year-end engagement. (A sample management advisory services questionnaire can be found on page 25, section 106.06, of the AICPA MAP Handbook.)

Either of these activities will take some time, so the engagement budget may need to be increased. You cannot expect in-charge accountants to look and listen if they are going to be abused for going over budget.

Firms should be ready to respond promptly as opportunities are identified. This probably means that the partner-in-charge should be involved in making the presentation and closing the sale, with the staff member present so that he or she can learn from the experience.

With proper guidance, encouragement, and tools, most staff members beyond entry level should be able to identify new sources of business for the firm. These activities will have the additional benefit of keeping good clients feeling positive about your firm, and letting them know of your interest in theirs. ☒

—by **Donald B. Scholl**, *D.B. Scholl, Inc.*, P.O. Box 3152, West Chester, Pennsylvania 19381, Tel. (215) 431-1301

## NEW CLIENT INCENTIVES: GOOD OR BAD? (PART 1)

March 1988

As accounting firms become better attuned to the need for formalized marketing programs, attention is frequently directed toward getting staff more involved in the marketing function. One of the first approaches to achieving this usually involves an incentive program designed to compensate staff members for new fees they generate.

Participants at MAP conferences often seek advice on how to reward staff for bringing in new business. (See "Questions for the Speaker" in the April 1987 issue.) The questions usually elicit a host of responses on both the positive and negative aspects of commission systems, depending on the individual practitioner's experiences.

In an effort to determine current practices regarding incentive programs, we recently conducted a telephone survey of local firms. As might be expected, the responses fall into both the pro and con camps. Let's first look at what supporters of incentive programs have to say, then at the responses of the opponents, and, finally, at what some individual firms are doing to encourage marketing activity.

Supporters say that some of the positive aspects of incentive programs are that they

- ☐ Can provide an intermediate process for firms in the transition from a nonmarketing to a marketing/practice development mode.



- ☐ May cause more people to become involved in the search for new clients.
- ☐ Are a method of rewarding staff for giving that extra effort to help the firm grow.
- ☐ May motivate people who are motivated by money by providing staff members with opportunities to increase their incomes.
- ☐ Will challenge the firm's emerging practice development leaders, and help bring about an understanding of the changing nature of public accounting and the need to adjust to it.
- ☐ Will help identify personal development needs in the area of sales and marketing skills. This would include the need for training in sales techniques, and in communication skills.
- ☐ May initiate staff to a process that will ultimately become a way of life—marketing.
- ☐ Can enlighten staff and partners about the importance of practice development.

Opponents say that some of the negative aspects of incentive programs are that

- ☐ In today's accounting marketplace, activities relating to marketing are no longer viewed as an added aspect of the general accounting function. Now, marketing is considered to be part of the current job description of all staff.
- ☐ It is difficult to determine a fair commission percentage.
- ☐ Individuals possessing the initiative to pursue new clients will do so whether or not there are incentive programs.
- ☐ On evaluation, firms have found that they would have obtained a majority of their new clients even without the programs.
- ☐ There are several factors, in addition to practice development, that make up the marketing process. Incentive programs typically reward only the practice-development function.
- ☐ Regardless of the number of marketing programs or the size of the incentives, some people

will never aspire to improve or utilize their practice-development skills.

Those generally in opposition to incentive programs raised a number of questions about their effect on client services and the billable workload of staff. They wondered, for example, whether the commission system should be in place all year, or just during the traditionally slower times of the year, and whether the system should extend to administrative as well as professional staff. There was concern expressed, too, over the time required to monitor such a system.

There were also questions about how to split the commission if more than one person is involved in securing a new client, and whether the commission should cover only the first year's fees or the fees received over a longer time period. Others questioned whether commissions should be paid only on work from new clients or also include new work generated from present clients, and whether the commissions should be based on actual fees billed, or take realization factors into consideration.

One alternative suggested to paying incentives is to set aside a predetermined percentage of new business revenue as a bonus pool. (The percentage could be the same as would be paid in an incentive program.) The money going into the fund could then be distributed to any staff members who perform marketing-related functions in an exceptional manner. The individual securing a large number of new clients would thus still be rewarded, as would the person who develops a successful presentation, prepares a winning proposal, or develops an internal staff-training program. ☒

—by **Michael A. Schoenecker**, *Advantage Marketing Group*, Box 297, Sartell, MN 56377, tel. (612) 253-6392

*Editor's Note: Part 2 of this article will describe some of the incentive programs currently in use by firms around the country.*

## NEW CLIENT INCENTIVES: GOOD OR BAD? (PART 2)

April 1988

The first part of this article in the March issue discussed local practitioners' responses to a survey of their attitudes toward incentive programs designed to reward staff for bringing in new business. The practitioners gave a number of reasons for either supporting or opposing incentive programs, and those in opposition also raised several questions about how to determine a fair commission, and the effect of such programs on firms and staff. Let's look now at what some individual firms (names withheld) are doing to encourage staff.

**Midwest firm with twenty-five offices**—pays 10 percent of first year's fees from new clients. Divides commission among all parties involved. Also pays a

**\$500 finder's fee** for locating a new professional staff member for the firm.

**Eastcoast firm with \$3 million in revenue**—used to pay 10 percent commission on the fees from new clients, but the program was not effective. Has no incentive program at present, and believes that marketing is now part of everyone's job description regardless of any special incentives. Staff finds it easier to talk in terms of marketing rather than sales.

**Westcoast firm with 52 total personnel**—had an incentive program that awarded 15 percent of the first year's fees from new clients only. This program was eliminated three years ago in favor of a bonus

pool based on revenue from new clients and new work from present clients.

*Northwestern firm*—pays 10 percent of first \$5,000 in fees generated from new clients, 15 percent of fees between \$5,000 and \$15,000, and 25 percent of fees in excess of \$15,000. Partners must approve all new clients and fees are set at a minimum of \$500. Write-downs are not charged against the commission.

*Westcoast firm*—pays 10 percent of first year's fees and 5 percent of second year's fees, both from new clients only.

*Upper Midwest firm with 70 total personnel*—awards points for all marketing activity, including handing out business cards, writing articles for the newsletter, giving speeches, and conducting seminars. The program is open to seniors and above. The rewards are dinners and gifts—not money.

*Upper Midwest firm with 80 total personnel*—pays 25 percent of first year's fees and 15 percent of the fees over each of the next five years, adjusting for realization. Commissions are paid quarterly.

*Mid-Atlantic firm*—pays 20 percent of first year's fees only, and only for new clients.

One multi-office firm in the upper Midwest had an incentive program that paid 10 percent of fees in each of the first three years for new clients only. This program was discontinued after three years in favor of one that could be adapted by each office to meet its own needs. The main focus of the new program, which ran from April 16 to September 30 last year, was to generate engagements for both new and present clients that could be performed during that time.

The estimated revenue generated from new engagements during the period was \$278,000, of which \$125,000 was attributed directly to the program. Staff surveys indicate an interest in using a slightly modified version of the program this year.

Let's look at some of the ways the firm's offices adapted the program:

☐ Over one-half of the firm's offices paid 15 percent of collected fees, net of expenses, on the first \$10,000; 17 percent, retroactive to the first dollar, for all collected fees between \$10,000 and \$20,000; and 20 percent, retroactive to the first dollar, for all fees over \$20,000. The minimum fee accepted was \$500, and all employees could participate.

☐ One office paid 15 percent of all fees generated and also offered some additional incentives. On engagements generating fees between \$5,000 and \$7,500, staff received a \$250 clothing gift certificate, and on fees between \$7,500 and \$10,000, a video cassette recorder. For engagements generating fees between \$10,000 and \$20,000, staff also received a bonus of a 19" remote-control color television set, and on fees in excess of \$20,000, staff received a Caribbean cruise for two.

There was no established minimum-size account, and of the sixteen people at the office, all four partners and seven of the staff members brought in new engagements. The estimated revenue generated from new engagements between April 16 and September 30 was \$106,000, of which \$78,000 was thought to be a direct result of the program. It should be noted that this office is located in a fast-growing market and that the employees tend to be marketing oriented.

☐ One office set up a three-year program paying 15 percent commission for each year's revenue generated from both new and present clients. All commissions went into a pool to be divided among staff as a bonus.

The survey revealed a wide variety of incentive programs used by firms around the country. While the examples by no means cover all types of programs, they do provide an understanding of what some growth-oriented local firms are doing to interest staff in practice development activities. ☒

—by **Michael A. Schoenecker**, *Advantage Marketing Group*, Box 297, Sartell, MN 56377, tel. (612) 253-6392

## INCREASING YOUR ORIGINALITY

July 1983

The Doty, Jarrow *Client Information Bulletin* recently contained some suggestions that all staff members can use to increase their output of ideas:

- ☐ Ideas are often fleeting. So keep a pad and pencil handy to write them down.
- ☐ Be curious and observant about other people's

interests, and about different places and things. You are bound to learn something.

- ☐ Make an effort to meet people, study, read and listen creatively and enthusiastically.

Learn to associate ideas. What seems to be original is often just a combination of old ideas.

## QUESTIONS FOR THE SPEAKER (NEW BUSINESS COMMISSIONS)

April 1983 and April 1987

The following questions were submitted to the panel at the AICPA practice growth conference last October but were not answered due to lack of time. In an attempt to obtain a variety of answers, we asked three practitioners for their viewpoints. The responses are by Ronald L. Frandsen, CPA, of Brigham City, Utah; Christian P. Frederiksen, CPA, of San Francisco, California; and William T. Young, CPA, of Madison, Wisconsin.

**Question:** If you pay 10 percent for new business or expanding services to existing clients, do arguments arise over who originated the business, especially when you use two people to assist in getting the account?

**Frandsen:** Whenever you use a commission for incentive you have this problem. When two people have been active in obtaining an account, we split the commission. In addition, the commissions are supposed to encourage activity, so owners always defer to staff and the more experienced people defer to newer personnel, etc. We have tried to approach the allocation of commissions in as positive a way as possible and, as a result, we've never had any serious disagreements.

**Frederiksen:** We do not pay a percentage to our staff. Problems don't usually arise over who brought the client in. They arise because staff people don't

- ☐ Like the idea of being commissioned sales agents.
- ☐ Think that this is what they should be doing in their early years.
- ☐ Consider it ethical, equitable or fair.

The system encourages the "C" team to call on prospective clients instead of the "A" team (partners). A better idea would be to pay specific bonuses based on people's practice development efforts (subjectively decided, of course).

**Young:**

First, I do not believe it is a good idea to pay a commission for new business. I think it is very important for anyone in public accounting to understand that the development of new business is a specific job responsibility, and something that is not beyond the scope of any employee's or partner's job description. Further, annual evaluations should include a discussion of practice development efforts and results so that the concept of practice development being an integral part of everyone's job is reinforced.

I have found that in situations where a fee was paid, arguments arose as to how that business was generated. I believe these arguments cause unneeded internal competitiveness and tend to negate the one-firm concept.

**Q** Participants at MAP conferences often seek advice on how to reward staff members for bringing in new clients. How do you decide who really added the client and how do you compensate them are typical questions.

**A** Responding to these questions, Daniel S. Goldberg, a Livingston, New Jersey, CPA says, "Any new clients referred to staff through normal firm contact belong to our firm and are not subject to fee participation. He adds, "We rarely have a problem deciding who brought in the client."

Richard A. Berenson, a New York City practitioner, agrees with that last statement. "We have paid staff a bonus in the area of 10 percent of fees collected for bringing in a client," he says, "but this is a fairly rare situation."

Robert L. Carr, who practices in Canton, Ohio, says that one of the problems is to have a fair set of rules on which to base such compensation. "In our firm, we have chosen not to use a commission system," he says, "and simply reflect in a staff member's compensation amounts that represent a reward for unusual marketing efforts." ☒

**Section 4**

**THE PROFESSION'S AND THE  
FIRM'S IMAGE**

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## THE PROFESSION'S IMAGE

December 1982

As we continue through the 1980s, it becomes increasingly evident that we CPAs need to be more aware of our professional image. Surveys show that CPAs are well respected by the business, financial and legal communities and are thought of as business and tax advisers by users of their services.

The biggest image problem the profession faces is the rather negative one that individual CPAs have of themselves. It is time for every CPA to look squarely at our overall professional image and visibly demonstrate what users of our services already know—that CPAs are creative, intelligent and knowledgeable business advisers.

The question for each of us then becomes, "What have I done lately to help improve the profession's image?" Here are some suggestions:

- ☐ Serve a community or charitable organization in a leadership capacity.
- ☐ Deliver a presentation to local civic or business groups.
- ☐ Prepare articles for local newspapers, professional journals, etc.
- ☐ Address a high school or college audience on the CPA profession.
- ☐ Accept responsibility for an office, committee or other duty for your local chapter, society or for the Institute.

It should be clear that we belong to one of the most rewarding professions. We are also faced with changes and challenges, which include

- ☐ The increasing number of specific standards that must be observed and communicated to clients and others.
- ☐ Changing tax laws.
- ☐ Competition within the profession.
- ☐ Increasing operating costs (especially salary costs).
- ☐ Client resistance to fees.
- ☐ Specialization.

To meet these challenges and increase the public's awareness of our profession as well, we should all be a positive force in contributing to the profession's image. We also must seek opportunities to discuss the profession with the public and to portray it as a constructive force in the economy. One of the best things we can do in this regard is to talk about our profession to young people thinking of becoming CPAs. We will be tomorrow what we bring into the profession today.

— by Jerrell A. Atkinson, CPA  
Albuquerque, New Mexico

*The above ideas are based on an article Mr. Atkinson wrote for the president's column of the November 1982 issue of the New Mexico CPA Journal.*

## DEFINING AND PROJECTING A CPA FIRM'S PROFESSIONAL IMAGE

February 1980

Firms must make changes as they grow. This point is made by Professor Larry E. Greiner, associate professor of organizational behavior, Harvard Business School, in his article, "Evolution and Revolution as Organizations Grow," published in the July/August 1972 *Harvard Business Review*. Greiner points out that, to move ahead, firms must introduce planned structures that are not only solutions to the current problems but are suited also to the next phase of their development.

It is at this point that I assume most CPA firms would like to continue growing. To do so, I believe a firm will benefit by studying and analyzing where it has come from, where it is now and where it wants to go. A good start for such a study could be to identify the strengths and weaknesses that are reflected in the firm's image.

Make the study a firm-wide one. Most studies will involve the partners, but you should consider including the professional staff and perhaps even the clerical staff of the firm. As a part of their work, have staff members address themselves to the question of whether or not they are satisfied

with the firm's image and their own. Then, having been involved with the study, personnel will be more cooperative later in carrying out the plans for projecting the firm's image.

- ☐ Start by studying the firm's present clients. What types of clients does the firm now have? What variety of services are performed for clients? How did the firm get these clients?
- ☐ Examine the firm's personnel. Take a look at the professional competence and technical knowledge of the staff. Does the firm have what it needs in the three primary areas of client service: i.e., accounting and auditing, tax and MAS? Are there people in the firm who possess special talents in management and practice development?
- ☐ Compare the firm with its competitors. It will be helpful if such things as type of clients, variety of services, fees, size and growth are taken into consideration. Are there firms close by growing faster than your own? Why?

- Don't overlook outsiders' opinions. We all know clients such as attorneys and bankers well enough to ask their opinion about the firm's image in the marketplace. And don't forget to review the reasons given by former clients for changing firms.
- Study the firm's market. What is the size of potential clients the firm can expect to obtain in the future? Be realistic. (Our firm is located in a smaller city in our state, and we have concluded that our chances of landing General Motors as a client are pretty slim.)

What types of services are needed in the area? It can be interesting to compare the types of services clients now demand with what was wanted years back when the firm was smaller. For example, some years ago we found a need in our community for computer services and recognized that no one in our town had any computer capabilities. In subsequent years, we have tried to fill that need.

After identifying its strengths and weaknesses, how does a firm go about changing its image? A good way is to eliminate the discovered weaknesses. Such things as bringing in new people to provide needed services and dropping undesirable clients should now be obvious. A firm's ultimate objective should be to increase the quality, quantity and promptness of its services to clients. The emphasis needs to be on the client.

Make auditing a service that clients will appreciate. Too often, CPA firms evaluate the quality of an audit using profession-initiated standards. The real question is whether or not a client receives any benefit from the engagement other than the one-page standard opinion.

Emphasize tax planning. Do for your client what is needed most, i.e., help reduce taxes, cut costs and increase profits.

Does everyone know you've got the best CPA firm in town? There is no conflict between maintaining a professional image and expanding a CPA practice. All of the firm's personnel must be aware of how they are a part of the firm's image. They must understand that it is impossible to separate personal from professional life. They need to know that firms sometimes stop growing—in fact, they often do when the founders become inactive.

With their different interests and technical knowledge, staff people collectively project the firm's image. They should be encouraged to sell the firm and to let clients know about other members of the firm who have strong or unique areas of expertise. The firm's image should be that of an effective team serving the clients' needs.

Appearances are very important and the firm's personnel and office facilities should reflect the image you want to project. All of us have seen con-

vincing studies of the effect dress has on our acceptance in the marketplace. Staff people should look professional, mature, and competent. Their appearance should reflect the fees being charged for them.

Don't forget that the firm's printed materials affect its image. Such things as brochures, newsletters, stationery and reports of the firm should present a positive impression to all clients and potential clients who receive them. (See "Your Printed Image" in last month's issue and another Rachlin & Cohen exhibit on page 5.)

I have said a CPA firm should increase the quality, quantity and promptness of services to clients. Why do I say this? Some studies show that over 50 percent of the new clients obtained by some firms are referred to them by present clients. This being the case, the firm's clients should be catered to and shown again and again that the firm appreciates their patronage. A growing firm must not only know its clients' businesses but must make them believe that it can take on new business without adversely affecting service to them.

And don't just talk accounting to clients. Learn some of the technical aspects of the industry they are in and keep up with developments.

Many firms find other professionals to be a good source of new clients. A study of one firm showed over 15 percent of new clients were referred by attorneys. Here again, a good image is important. Keep up your contacts with these professionals. Work with them, and then you will have reasons for contacting them during office hours. Who knows? Someday they just may have another client asking for their recommendation for a CPA firm.

Do professional activities pay? I believe it's necessary for a growing CPA firm to have staff members extensively involved in professional activities. The firm's image is enhanced when staff members make speeches and write articles. Clients are impressed when their CPA is recognized by his own peers. Activities in the AICPA and the state societies have paid off tremendously for many CPA firms.

Also, a successful CPA should be active in the community. Why shouldn't a CPA get credit for such activities?

In conclusion, emphasize effort and not dollars. Getting a new client takes time and often results from many actions taken by the firm over many years. Concentrate on the areas where you receive the best results. And finally, set the example of projecting a professional image at the top of the firm. As someone once said, "There is nothing more contagious than enthusiasm."

*—by James L. Keeler, CPA  
Harrisonburg, Virginia*

## WHAT'S WRONG WITH YOUR FIRM'S IMAGE?

July 1979

Most of us in local or regional public accounting firms serve small- and medium-size businesses headed by their founders. These people often have special skills in areas such as sales, production and product development but seldom have substantial expertise in administration or financial management.

Entrepreneurs usually develop their skills informally. They sometimes have little, if any, internal backup and tend to make decisions based on unsophisticated methods which limit their effectiveness. Because of these limitations, they draw on the services of the professional business community—the insurance broker, lawyer and accountant.

Business people probably see their accountants more often than other professionals and deem them nice, honorable people who are intent on balancing the books or answering tax questions. But, they also think that CPAs' contributions to management take the form of negative comments such as "receivables are turning too slowly" or "inventories are too high." For lack of creative and positive input to go along with the negative connotations, the accountant is tolerated but excluded from most decisions other than, "Can I afford this?" or for tax purposes, "How can this transaction be structured?"

Do you think this is a fair appraisal of our services? Is this the image you want for your firm? We should all take a good, hard look at ourselves before answering these questions.

First, let's look at the way we are trained to serve the public. We are immersed in a sea of technical facts and techniques. Then, we are tested on our abilities to retain and retrieve these same things. What we don't receive, in most cases, is adequate training in the management techniques and organizational and communicational skills necessary to operate a successful business.

Second, the need to be independent as auditors causes us to overreact in this respect. Auditing is a part of what we do, and being independent does not mean being aloof to clients' problems. We can be committed to helping them, initially, by preparing ourselves to teach them management principles and techniques, such as management by objectives; being a sounding board for new ideas; offering constructive criticism; and still maintain our professional stature and independence. We should not put artificial barriers between ourselves and our clients.

Where do you want to be regarding the image of your firm? If you cannot say with certainty that in the eyes of your clients and the business commu-

nity, your firm represents technical competence, professional commitment, creativity, leadership, client involvement and service, then consider ways to improve that image. There are several steps you can take that will build a positive image and lead to firm growth. Here are some of them:

- ☐ We all work better at things we like, so, find out what the people in your firm want to do, and then consider if what they want to do has potential for development.
- ☐ Take an inventory of your firm's current skills, and determine what additional ones are needed in order to obtain special expertise in desired areas.
- ☐ Set your objectives and goals. Make a formal, detailed outline of the steps needed to become expert, and prepare a timetable for each step.
- ☐ Involve your key personnel in working out the game plan, and make sure they understand their roles.
- ☐ Perfect the techniques of managing your own practice (your most important client). The skills acquired will give you a far stronger basis for helping and serving your clients and earn you your right to give advice.
- ☐ Learn professional selling skills and devise a marketing program. The required knowledge can be obtained from several sources including AICPA CPE courses. Better methods should result in improved communications with clients and help build your practice.
- ☐ Develop an administrative program that ensures a high level of service contact with clients on a regular basis.
- ☐ Have a firm brochure printed that tells who you are and what you are.
- ☐ Discuss your firm's approach with other professionals—be they bankers, lawyers, insurance people or other accountants.
- ☐ Be involved in the community and in professional activities.

It would be impractical to try to accomplish the above outline all at once. However, to reach your objectives you should form your plan, establish item by item priorities and set up target dates for the completion of each phase of your program. In some instances, more than one step can be taken at a time.

If you want to have a good firm image tomorrow, start making things happen today.

—by Paul D. Schulman, CPA  
Phoenix

## Section 5

# CLIENTS' PERCEPTIONS AND CLIENT RELATIONS

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## COMPETING SUCCESSFULLY FOR SMALL-BUSINESS CLIENTS

September 1986

Two essentials for operating a successful small-business practice are retaining current clients and attracting new ones. To do this, given the current intense level of competition for small-business clients, it is necessary to analyze and understand their needs, expectations, and concerns.

The following suggestions for competing successfully in this market are based on a recent survey of 130 small-business clients of accounting firms of different sizes. Because of differences among businesses, however, the suggestions should be viewed as general guidelines that may not be applicable in every situation.

### Retaining current clients

The factors leading the surveyed clients to dismiss accounting firms suggest that the following actions should be included in a CPA firm's client-retention strategy:

- ☐ Create a perception of reasonable fees.
- ☐ Create a perception of high-quality service.
- ☐ Let clients know they are important to the firm.
- ☐ Maintain reasonable turnaround time for services.
- ☐ Make certain that clients are aware of the full range of services the firm can provide.

Clients must perceive that costs are reasonable for all services provided. The survey indicates that dissatisfaction over fees is the primary reason for changing CPA firms. To prevent such misconceptions, firms should make clients aware of their fee structure (hourly rates for types of services) and number of hours budgeted and/or charged for a particular job. Clients are then able to intelligently evaluate the reasonableness of the fees they are billed.

Clients are also likely to become dissatisfied if they think they are not being provided with high-quality services. Again, this is often a matter of perception, rather than of actual poor quality. Suggestions for improving the way services are perceived include

- ☐ Presenting clients with neat, accurate reports, tax returns, etc. Often, clients see only the final product and form their opinions about quality on the physical appearance of a report or return.
- ☐ Clearly indicating the limitations of advice given. Clients must be made aware of potential situations that could make these suggestions unsound. Taking these precautions should prevent clients from erroneously concluding that they were poorly advised.

- ☐ Having adequate knowledge of the client's business. Failure to do so will lead a client to lack confidence in the CPA's ability to provide adequate services.
- ☐ Notifying clients of new laws and regulations that affect them. Doing this will demonstrate one's knowledge and concern for the client.
- ☐ Performing services in a professional manner, especially when working at a client's place of business. Professionalism in both appearance and work performance is essential.

Clients must believe that they are of the utmost importance to their accounting firm. Indeed, the second most frequently cited reason for changing firms is that the predecessor firm failed to demonstrate an interest in the client's business. Specifically, respondents mentioned the inaccessibility of key CPA firm personnel, failure to return phone calls on a timely basis, and high turnover of CPA firm personnel assigned to their engagement.

There are many useful techniques for improving client relations, particularly regarding the points mentioned above. For example, always return phone calls in a timely fashion. When this is impossible, arrange for an associate to return the call to explain the delay and to respond to any questions. And remember to maintain contact with clients throughout the year, not just at audit or tax time.

It is essential that everyone in the firm, from the telephone operator on, recognize that it is a service business and the services must be delivered promptly and politely. Many clients never visit their accountant's office. They know it only through contact with the audit staff, the operator who answers the telephone, and through the written reports that are sent out by the report department. These last two areas must be carefully monitored to assure that the accounting firm is properly perceived. The importance of the telephone operator's handling of calls can't be stressed often enough.

Clients should always be informed when the major responsibility for a service is assigned to a different person. The advantages of such reassignments can be explained so that clients realize the accounting firm is acting in their best interests, not its own. Don't let clients feel they are being used as a training ground for new staff.

Setting a mutually acceptable completion date for services rendered establishes the boundary separating acceptable from unacceptable time. When circumstances make it impossible to meet a deadline, notify the client at the earliest possible date. Although these occurrences should be rare, it is bet-

ter to change the completion dates than to fail to meet a deadline or, even worse yet, to meet deadlines by performing substandard work.

To prevent the perception that needed services are not available, let clients know about all of the services your firm can provide. Available services can be described by direct communication with clients or through the distribution of pamphlets and brochures. Additionally, when clients are not receiving a service that could benefit them, they should be so informed. It is inexcusable for CPA firms to lose clients because of the clients' wrongly held perception that the firms cannot provide a particular service. In situations where a required service is not available, another CPA firm may be recommended while special efforts are made to retain the client for those services your firm can provide.

#### **Attracting new clients**

The factors that are important to current small-business clients will be significant to prospective clients as well. Before you can attract new clients, though, you must make certain that current clients are satisfied with your firm. Their recommendations are instrumental in establishing a firm's reputation for high-quality work, competitive fees, and capability in a wide range of services.

The process of identifying prospective clients' needs facilitates the development of a marketing strategy that addresses key issues and any concerns potential clients might have about your firm. Much of the information you need to know in this regard can be obtained from sources such as trade journals, local media, and other firms in the same line of business. Such an approach to communicating with prospects ensures that important information is neither overlooked nor misunderstood.

The next step, of course, is to let these prospects know that your firm is able to meet their needs. This can be accomplished both indirectly and directly.

Indirect communication through referrals and general advertising might fail to address the prospects' specific requirements and so won't necessarily improve your firm's chances of attracting new clients. Direct communications, written proposals, and personally informing prospects about the firm's ability to meet their needs are more effective.

The written proposal should clearly and concisely

describe the manner in which the firm plans to meet the prospect's requirements—nothing more. This

## **Communication and service are the keys to client satisfaction.**

should be followed by an oral presentation delivered by a key person who is thoroughly familiar with the prospect's business. This presentation should be structured to ensure that the written proposal is fully understood and that any unclear issues are clarified.

Brochures are used by many firms to convey information about their range of services. If they are well prepared, they can create a favorable impression of quality work and illustrate the advantages a particular firm can offer.

Prospective clients must also be assured of continued access to key CPA firm personnel. This must not be an empty promise because, if it is, not only will the firm's chances of retaining the client be jeopardized, but also its reputation.

Finally, it is essential to convince prospective clients that your firm's fees are reasonable. Reasonable fees are not necessarily low fees. The survey indicates that clients are just as interested in receiving quality services as they are in the cost of them. As with current clients, if prospects are made aware of the firm's fee structure and the time required for various services, they will be able to evaluate the reasonableness of fees. Keep in mind that each prospective client is a unique entity; your firm's marketing strategy should therefore be tailored to each one's specific needs and expectations. ☑

—by R. Mark Alford, CPA, Ph.D.

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### **THE KEY TO CLIENT SATISFACTION**

February 1988

It is not easy for clients to change CPA firms. The client has to obtain copies of financial statements and prior years' tax returns, and answer questions from the new accountants who have to familiarize themselves with the client's operations and financial picture. The client also has to tell the original

accountants that they have been fired. All of this is stressful and troublesome. So what would cause a client to change CPA firms? What causes a client to be satisfied or dissatisfied? Given today's competitive professional environment, it is essential to find out.

Numerous research studies show that companies meeting customers' high expectations for quality can command premium prices for their products. Mercedes Benz and Maytag are two such companies that come to mind. The same is true for firms that provide high-quality services. Quality also directly affects the satisfaction level of clients.

Client satisfaction is not just a "Yes, I am satisfied" or "No, I am not" matter, however. There are varying degrees of satisfaction. On a scale of one to ten, some clients' satisfaction levels may be five or six, and others' nearer to ten. Those at the lower end of the scale are open to approaches from other accountants, while those at ten are not only secure but probably referring clients to you. To retain clients, you must raise the satisfaction level of marginal clients and maintain the level of those already satisfied.

#### **From customer to "cheerleader"**

The intensity of business relationships can also be expressed on the same scale. The weakest relationship is that of a "customer" or "purchaser" who has used one of your services but not on a regular basis, does not think of you as a source of help or advice, and does not feel any special relationship to you or your firm. On a satisfaction scale of one to ten, the "customer's" or "purchaser's" level might be five or six.

A "client" typifies the normal type of relationship. "Clients" use your services regularly and are comfortable turning to you for advice and counsel. Their satisfaction level on the scale might be seven or eight.

The "cheerleader's" is the strongest relationship. He not only comes to you for help, but sells for you. "Cheerleaders" tell friends and associates about you and refer clients to your firm. Their satisfaction level is nine or ten. The goal, of course, should be to raise the satisfaction level of all categories to the highest level.

#### **What is quality service?**

Before answering that question, one has to ask, To whom, the accounting firm or the client? Quality service means different things to accountants than it does to their clients.

To the accounting firm, quality involves delivering services that conform to professional standards. To most firms, this means conforming to generally accepted accounting principles, generally accepted auditing standards, income tax laws, etc. Professional standards are basically objective, so we can refer to the CPA's quality definition as "objective quality."

We are interested in retaining clients and raising their satisfaction levels to the point of their becoming "cheerleaders." In this article we will, therefore,

concentrate on quality solely from the client's viewpoint.

The concept of quality as applied to services involves the notion of perceived quality—that is, the client's judgment about a service's overall excellence or superiority. It differs from the CPA's definition of quality in that it is subjective. It can give valuable insights into the client's future purchasing plans.

#### **Concepts of quality in goods do not apply to services**

Efforts to define quality have come mostly from the manufactured goods sector, i.e. "zero defects," manufacturing tolerances, strength, durability, mean hours between failure, etc. But knowledge about the quality of manufactured goods is insufficient to understand quality of services. In contrast to goods quality, which can be measured objectively by such indicators as durability and number of defects, service quality is an abstract and elusive concept because of three unique features—intangibility, heterogeneity, and inseparability of production and consumption.

First, because services are intangible performances rather than tangible objects, precise specifications for uniform quality cannot be set. Because services are intangible, a CPA firm may find it difficult to understand how clients perceive their services and evaluate service quality.

Second, by their very nature, services are of inconsistent quality. Services are performed by different people and their performances can vary from producer to producer and from day to day. Even a sole practitioner may not achieve consistency of performance because a single individual's performance may vary from time to time.

Third, for many services, production and consumption are inseparable and simultaneous. This can cause several problems to CPA firms where client participation is heavy—for example in income tax preparation or personal financial planning—because the client affects the process. In other words, in these situations the client's input is critical to the quality of the service performance.

Because of these characteristics, there are three underlying themes that affect any examination of service quality:

- *Service quality is more difficult for the client to evaluate than goods quality.* When purchasing goods, the consumer utilizes tangible data to judge quality, such as style, color, and size. When purchasing services, fewer tangible data exist. In most cases, tangible data are limited to the service provider's physical facilities, equipment, personnel and—in the case of CPA firms—the report itself. This is particularly so with professional services, as compared to, say, television repair. In television repair, the customer can at least judge

the quality of the television picture, even if he doesn't know whether or not he was overcharged. In professional services, the client usually does not have the education or experience to evaluate the technical outcome of the service.

□ *Service quality opinions result from a comparison of client expectations with actual service performance.* Service quality is a measure of how well the service level delivered matches client expectations. Delivering quality service means at least conforming to (or exceeding) client expectations on a consistent basis.

□ *Quality evaluations are not made solely on the outcome of the service; they also involve evaluations of the manner in which the service is delivered.* One author called this a comparison between "technical quality" and "functional quality." In the case of the TV repairman, the customer evaluates not only the picture quality (technical quality) but also the repairman's courtesy, appearance, and promptness (functional quality). In the case of a CPA firm, this includes the physical aspects of the service and the interaction between CPA firm contact personnel and clients as well as interaction *among* clients.

### The key to ensuring quality service

To clients, service quality stems from a comparison of two factors: first, what they want or expect from the service, and second, what they perceive they actually receive. As we shall see, the comparison of these two factors determines how well a CPA firm "scores" with its clients.

According to a study conducted by Parasuraman, Zeithaml, and Berry for the Marketing Science Institute of Cambridge, Massachusetts, perceived service quality is the difference between consumers' perceptions and their expectations. In other words, the better their perceptions are than their expectations, the higher is the level of perceived quality. The converse is also true.

For a prospective or new client who does not have long experience with your firm or with other CPA firms, expectations are viewed as *predictions* made by the client about what is likely to happen when he or she receives professional services from you. The expectations of a prospective or new client have a certain degree of uncertainty about them because

he or she is unsure of what to expect.

For an existing client or one who has long experience with another CPA, expectations are more closely related to desires or wants—that is, what the client believes his CPA *should* offer rather than *would* offer. Since the experienced client's expectations represent what he or she desires, you can view these types of expectations as a distinct value with little or no uncertainty surrounding them.

Clients fully expect competent, technical services. So when they get what they expect and bargained for, they are "satisfied." That is the end of the transaction. Economically and emotionally, they owe you nothing and you owe them nothing.

Clients become enthusiastic only when the service they receive exceeds their expectations, when they get something extra, something more than they bargained for. Emotionally, because you gave them more than they expected, they are indebted to you.

One of the good features of human nature is that anytime we feel that we get more than we gave in any transaction, we not only feel obligated, we also feel motivated to do something extra for the other person. Enthusiastic, "cheerleader" clients do just this. They pay you back for the extras you gave them by advertising you and referring you to anyone who will listen.

The key to ensuring good quality service is meeting or exceeding what clients expect from the service. So let's not get so wrapped up in *our* objective viewpoint of technical quality that we forget the one who ultimately must evaluate our service every time he or she signs a check paying our bill—the client. □

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*Editor's note: Mr. Cottle gratefully acknowledges the research conducted by A. Parasuraman, Valerie A. Zeithaml, and Leonard L. Berry for the Marketing Science Institute of Cambridge, Massachusetts, (1986); as well as their efforts in the Journal of Marketing (Fall 1985).*

## WHAT DO CLIENTS EXPECT FROM THEIR CPAS?

July 1988

My previous article, "The Key to Client Satisfaction," which was published in the February *Practicing CPA*, dealt with how clients' satisfaction levels result from their comparing what they expected from a service with what they perceive they actually received. Two questions remain, though: What

exactly do clients expect from their CPAs, and how do clients judge our performances?

As noted in the previous article, CPAs and their clients differ as to what constitutes quality service. Clients' expectations and perceptions can be divided into broad areas called "dimensions." As far as most

clients are concerned, there are five overlapping dimensions of service quality. Let's review these dimensions and think about how they can be demonstrated to clients.

**Reliability.** Clients judge us on how dependable and accurate we are. This means we must perform the service right the first time. Dependability covers factors such as whether our product reflects all the information the client gave us, whether we obtained all the information we should have, and whether our billing is accurate.

**Assurance.** Competence, credibility, communication, courtesy, and security are all elements of assurance. Competence means having the necessary skills and knowledge to perform the service. This would involve the CPA firm's research capabilities, and its staff's ability to solve problems and develop innovative ideas and approaches.

The firm's name and reputation in the community, and the personal characteristics of the people dealing with clients contribute to its credibility. Basically, it means having the client's best interests at heart, and being careful not to do anything in a manner that would undermine the client's trust.

Communication means listening to clients as well as keeping them informed. It means explaining the service in language the client can understand, assuring the client that a problem will be handled, and remembering the old rule, "Never let the size of the bill be an unpleasant surprise."

Consideration of the client's time and property, keeping appointments, returning phone calls promptly, and answering mail quickly all come under the label of courtesy. Security is the freedom from danger, risk, or doubt. It means the client's having faith in your ability to anticipate problems and handle his or her business affairs in strict confidence.

**Tangibles.** These are the financial statements, reports, tax returns, correspondence, newsletters, and such that the client receives from the CPA firm. As well as the appearance of these products, clients also evaluate the appearance of your office facilities and personnel.

**Responsiveness.** Clients interpret this to mean, "Are our accountants willing to help us and provide prompt service?" CPAs can demonstrate responsiveness by starting engagements on time, and delivering the product on or before the promised date.

**Empathy.** Being accessible to, and understanding the client are what is meant by empathy. It would include having knowledge of the client's organization, developing expertise in the client's industry, and being available to provide specific, individualized attention.

Which is the most important characteristic? The answer will vary from client to client, but research shows that client expectations are usually highest

concerning reliability, followed by assurance, tangibles, responsiveness, and empathy, in that order.

Research also suggests that simply striving to meet clients' expectations is likely to boost their perceptions of a service firm's overall-quality image. Given the level of competition in public accounting today, it is likely that clients' expectations for service quality will become even higher.

### **Risk—the forgotten factor**

One axiom has it that the greater the risk to the buyer, the greater the amount of trust the buyer must place in the seller. This is particularly true of the client/professional relationship.

Clients take a risk when they hire you. To a large extent, the decision to hire a CPA is based on trust—that their preliminary assessment of your ability to meet their service expectations is valid.

Customers expect many people to be involved in the production and distribution of a manufactured item. Clients, on the other hand, expect to receive the attention and expertise of the professional who earned their trust and confidence. This is why it can be difficult to "transfer" a client from one CPA to another.

For prospective clients, or people who are unfamiliar with CPA services, expectations are viewed as predictions made by them regarding the professional service they are to receive from you. These predictions have a degree of uncertainty about them.

For present clients, or prospects who are familiar with CPA services, expectations are more closely related to their own desires and needs. These expectations can be viewed as having a distinct value, with little or no uncertainty surrounding them.

It is important to note that only tangibles and, to a certain extent, assurance and empathy can be known by clients prior to receiving a service. The other dimensions can only become known as the client is receiving the service. Referral sources, especially, may not have a good picture of your performance in these areas. Obviously, this entails a great deal of perceived risk by the client.

This perceived risk is another reason why it is not easy for clients to change CPA firms, and why it is important to build a relationship based on trust and confidence.

Personal recommendations from your present clients provide the only real information that prospective clients can use to determine whether or not to try your services. Clients usually evaluate service quality based on the dimensions they can personally experience, however. And they reevaluate these dimensions each time they interact with your firm. Every client contact yields another value rating for your firm's services.

The key to client satisfaction, therefore, is to first identify with the client's viewpoint and determine exactly what is expected from the CPA. You can then address his or her needs from the dimensions the client considers important. ☑

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## HOW BUSINESSES SELECT CPA FIRMS

July 1985

Knowing how businesses select CPA firms can be useful information to practitioners in planning marketing activities and in choosing target markets. To determine what criteria were used by different groups of businesses and which individuals were involved at different stages in the selection process, a questionnaire was mailed to 566 business firms randomly selected from the 1980 Dun & Bradstreet Million Dollar Directory.

Responses were received from 307 businesses, 33 percent of which had fiscal 1979 sales volume of \$5 million or less; 33 percent, \$6 million to \$23 million; and 34 percent, \$24 million or more. Forty-six percent of these businesses were privately owned; 44 percent used nonnational CPA firms; and 54 percent did not have an audit committee.

The businesses had been associated with their CPAs for an average of eight years and had considered an average of two bids in their last CPA selections. The audit fees for 36 percent of the businesses amounted to less than \$20,000; 34 percent paid \$20,000 to \$49,000; and 30 percent \$50,000 or more.

### The selection criteria

The characteristics, as rated by the respondents, are listed below in descending order of importance:

- 1 Performance of auditing and tax services
- 2 Accessibility of CPA partners to respondent's executives
- 3 Local reputation
- 4 Industry specializations
- 5 Proposal and fee
- 6 Adherence to professional standards
- 7 Ability to provide desired accounting services
- 8 Geographical proximity to respondent's offices
- 9 Size and national prestige
- 10 Ability to provide management advisory services
- 11 Recommendations by individuals outside respondent firm
- 12 An approach by CPA firm indicating an interest in being respondent's auditor

The characteristics of the respondent businesses apparently make a difference to the importance given some selection criteria. For example, smaller businesses attach greater significance than larger

*Editor's note: Mr. Cottle gratefully acknowledges the research conducted by A. Parasuraman, Valerie A. Zeithaml, and Leonard L. Berry for the Marketing Science Institute of Cambridge, Massachusetts, (1986); as well as their efforts in Business Horizons, May/June 1985; and in the Journal of Marketing (Fall 1985).*

ones to a CPA firm's accounting-services abilities, its industry specializations and the accessibility of its partners to their executives. Larger businesses, on the other hand, give greater weight to the CPA firm's size and national prestige.

Businesses that had recently changed CPA firms and which had evaluated more than one bid in their last selections considered the CPA firm's proposal and fee and its size and prestige to be important criteria in the selection process.

Clients of nonnational CPA firms considered the following selection criteria more important than did clients of national CPA firms: (1) ability to provide desired accounting services; (2) local reputation; (3) accessibility of the partners to their executives and (4) indications of the CPA firm's desire to be their auditor. In comparison, clients of national CPA firms considered the firm's size and national prestige and the geographical proximity to their offices to be more important.

Businesses with audit committees attached greater importance than did those without audit committees to the CPA firm's recommendation by outside people, its adherence to professional standards, the proposal and fee, firm size and national prestige and its industry specializations.

Respondents also indicated whether or not they believed differences existed with respect to CPA firm characteristics. The results show that client businesses do not consider CPA firms to be homogeneous. In comparison with clients of national CPA firms, nonnational-firm clients believed their CPAs were more variable with respect to (1) adherence to professional standards; (2) local reputation; (3) performance of auditing and tax services; and (4) ability to provide desired accounting services.

### The selection process

Five steps appear to be involved in the CPA selection process: (1) recommending alternative firms; (2) providing information about them; (3) evaluating them; (4) making a formal recommendation and (5) selecting a CPA firm. Relatively few individuals and groups (the average number is 3.5) participate in this process.

The chief executive officer (CEO) and chief financial officer (CFO) are the most influential participants and are involved at all stages in the selection. The CEO, however, tends to be the most influential individual in smaller businesses and the CFO in larger ones.

The audit committee, the chairman of the board and the treasurer are also actively involved in the selection process. Audit committee influence is prominent in larger businesses and when it comes to evaluating and formally recommending and selecting a CPA firm. At those stages, it is the treasurer who provides information about the CPA firms and is the power in the evaluation while the chairman of the board is most influential in the recommendation and selection. Both the chairman of the board and

the treasurer are more influential in smaller businesses.

#### Conclusion

The results of this study show which CPA firm characteristics are important to different business groups and which individuals in those businesses are most actively involved in gathering information about and selecting CPA firms. This can make it easier for practitioners to target the right individuals in those groups of businesses that have service needs which best match the strengths and skills of their firms. ☑

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## HOW CPAS ARE PERCEIVED

June 1984

Small businesses and professionals represent a growing market for members of the New Jersey Society of CPAs. Prior to planning a public relations program to reach this audience, the society determined that it must first find out how small-business owners and professional people perceive CPAs and to what extent they use specific CPA services. To obtain this information, the society, in cooperation with the Rutgers University department of communication, conducted a survey last spring of a representative market sample in the state.

Responses were received from 179 (36 percent) of the 478 people who received the 44 question survey. Approximately 65 percent of these respondents are involved in some type of small business and 35 percent have professional practices (law or medicine). At the time, the average small-business respondent employed 19 people and had been operating for 17 years. The average professional had been in practice for 15 years and employed 6 people. Although the survey was confined to one state, the responses should be of interest to local practitioners throughout the country.

The respondents, in general, are significant consumers of many professional services, such as lawyers', bankers', bookkeepers' and, particularly, CPAs'. Seventy-nine percent indicate that they either "employ" or use CPAs for a range of financial services.

The vast majority (over 90 percent) of the respondents who use CPAs, turn to them for traditional services, such as help with taxes, preparing financial reports and to perform audits. CPAs are also preferred over bankers, lawyers, stockbrokers and "others" to help respondents establish benefit programs, invest in or buy a new business, expand an existing one, or just to help them keep up with financial developments. The CPA usage rates for

these four services are between 50 and 60 percent—lawyers and bankers being used to a significant degree as well.

*The fact that just over half of the respondents turn to CPAs for these services suggests that these markets could be further developed. The remaining respondents might be unaware that CPAs provide such services.*

There are two areas where professionals other than CPAs are immediately associated with a particular service. These involve investments and estate planning. In both cases the CPA usage level is about 40 percent. The respondents turn to stockbrokers at least as often as to CPAs for advice on investments, and twice as often to lawyers for estate planning assistance.

The survey revealed that 20 percent of the respondents don't use the services of CPAs at all, although just over half of this number do use accountants. The nonusers, who have an average of 6 employees each, as opposed to an average of 14 for the entire sample, seem to believe that their businesses or practices are too small or too simple to require a CPA's services.

*This raises the question of whether or not advertising would be the best way for CPAs to inform small-business owners and professional people about the services they could provide. The survey results were not very encouraging in this respect.*

The majority of respondents did not rely on advertisements when seeking professional services, and tended to think that professionals should not engage in this type of promotional activity. At the least, most of them indicated, quite strongly, that they expected professional people to exhibit more integrity in the use of advertising than they would expect from other advertisers.

Once the decision to utilize the services of a CPA is made, the survey showed that reputation and recommendations are the primary determinants of whom will be selected. However, the CPA's education and personality and the cost of the services are also significant and might, under some circumstances, deter a prospective client despite the CPA's reputation and recommendations. To nonusers,

recommendations are apparently more important than reputation, and cost is a more significant factor than it is to people who actually use CPAs' services.

*Generally speaking, the respondents hold CPAs in high esteem and consider their services to be helpful in saving time and money. Nevertheless, there seems to be scope for informing small-business owners and professionals about the range of services CPAs provide. ☑*

## TAKING ADVANTAGE OF CLIENT PERCEPTIONS (PART 1)

January 1987

When asked for their perceptions of themselves, or at least the services they provide clients, CPAs tend to respond with terms such as "high quality," "timely," and "worth the fee." They see themselves as being responsive to clients' needs, helpful, supportive, and conservative.

Client perceptions of CPAs are rather different. Responding to the question posed by one firm of what they would like their CPAs to be, as opposed to what they are, the clients used words such as "timely," "innovative," "knowledgeable about their businesses," "proactive," and "available."

Perceptions, quite obviously, don't always relate to reality. Nevertheless, there are conflicts in several areas. The objective is to get these perceptions together and thus form a more constructive relationship.

In surveys conducted by various entities, clients have listed untimely service and lack of service as the primary reasons for changing CPA firms. Fees are listed, too, but usually by a much smaller percentage of the respondents.

In one specific survey, 89 percent of the responding clients of a multi-office firm said that the firm performed services within a timeframe that met or exceeded their expectations. The majority believed they were treated in a professional and courteous manner, and 96 percent would recommend the firm to prospective clients. Only 64 percent of those responding, however, said that they had ever been asked if they needed any of the CPA firm's other services.

One question on the survey asked, "How could we have served you better?" The clients indicated they would like to see more initiative on the part of the firm in offering needed information, more timely service, better communication, and increased interest shown in the performance of the clients' businesses.

One client suggested that the CPA firm install a toll-free telephone number so that clients could more readily get help in solving problems and making business decisions. Others said that the tax information given them assumed that they had a level of knowledge which they did not possess. They

wanted more to-the-point tax-saving information and better access to their tax-return preparer. The firm was fully capable of providing many of the services in which the clients expressed interest, but the clients were not aware of the fact.

Similar complaints were expressed in a survey of another CPA firm's clients. "They don't bring things to our attention and don't help us with our business problems," were typical comments. One client said that he had to suggest to the CPA firm that he needed a LIFO inventory system, rather than this being suggested to him. He did find the firm willing to go to industry seminars with him, though, so that both could learn what he needed.

Others said they thought that there were many things the CPA firm could be doing for them that it was not. "They are capable of providing us with more consulting work," was one comment. "They simply don't have a desire to give us that level of service."

Some clients wanted more information on the firm's capabilities in tax planning. One said that he got many tax-saving ideas from the tax bulletins and newsletters sent by a large national CPA firm.

### ***Clients say they want more assistance from their CPA.***

Another thought that a management letter would be useful. "I look to my CPA as I look to my doctor," he wrote. "If he sees the symptoms, he should tell me about them. I'd spend money for a management letter."

Based on these surveys, clients perceive a need for a lot more business advice than they get. When they ask the right questions, they receive helpful answers. The problem for many clients, though, is knowing what questions to ask. The surveyed clients were unhappy about the quantity of assistance they received from their CPA firms. Quality was not an issue.



### How to find out how clients see your firm

Perhaps one of the easiest and least expensive ways is to use the Client Perception Survey available through the Texas Society of CPAs. (See box, facing page.) You can also conduct mail surveys of your own. If you do, keep the questionnaire short. Remember that you are sending it to busy executives and business owners. Enclose a stamped, addressed envelope for the response, and give respondents the option of signing the form. You will find that some clients want to give you specific messages.

You might also consider personal interviews. You can get a lot of information during a face-to-face conversation with a client. To ensure that the responses are complete and candid, it is best if the interviewer is someone other than the partner responsible for that engagement.

An interview can also work well as a follow-up to a questionnaire and enable you to get additional information from the client. You should have a list of questions that you ask everyone. That way you can compare the data and find out how the firm in general is perceived, or which partner is managing the client relationship best.

You must listen carefully to the clients. Keep in mind that the idea is to get information, not to deal with it. So don't get defensive at some of the criticisms—just bite your tongue, talk with all clients, then follow up to deal with their problems. They will expect something to happen after the interviews, so try to deal with their concerns promptly.

### Independent surveys

Probably the best way to get direct, unbiased feedback is by using someone outside the organization to conduct the survey. Clients are likely to be less restrained in their remarks than they would be with one of the firm's partners. You can hire a public relations or marketing firm, or go to an independent consultant for this purpose. They are professionals in the field of conducting surveys, do it all the time for their clients, and know how to get meaningful information.

Another consideration is that your clients don't expect an outsider to be an expert on accounting matters and won't be looking for solutions to their problems on the spot. Having an outsider conduct the survey can be expensive, although considering what you can learn about your firm and your clients, it is probably worth the investment.

No matter what type of survey you use, you must be prepared to do something with the information you obtain. Clients expect some action, and the relationship will deteriorate if their expectations are not dealt with. So, make changes in ways that are obvious to clients. They have one overriding interest, and that is knowing how to make more money in the operation of their businesses. Their secondary

### Client Perception Survey

The Client Perception Survey offered by the Texas Society of Certified Public Accountants was developed to give clients an opportunity to constructively criticize their CPAs' practices. The idea is that such comments will enable the CPA firm to recognize and address problems that might be jeopardizing the client relationship. The comments might also result in additional services and fees.

There are two parts to the survey. The first is a multiple-choice questionnaire dealing with the services provided, which takes clients about ten minutes to complete. The second part is a request for additional comments on any aspect of the client's association with the CPA firm, and a request for a list of services on which the client may desire more information.

The completed forms are mailed by clients in a postage-paid envelope to the Texas Society for processing. A comparative report is generated from the questionnaire that reflects clients' attitudes toward the firm. This is compared with the attitudes of all clients in the data base toward all other participating firms. The original comment sheets and the comparative report are mailed to the CPA firm.

The Client Perception Survey reveals whether clients are aware of all the services the CPA firm offers, whether they believe they are informed about its policies and fee structure, and whether they would recommend the firm to others. The survey also shows the firm's strengths, and which areas of practice need improvement.

Clients are asked, for example, if the advice they receive has been beneficial, whether the firm's personnel seems technically competent, returns phone calls within a reasonable period of time and helps implement any suggested changes.

The cost of this service is \$2.50 per questionnaire with a minimum order of 100. Additional reports identifying client categories (separating tax clients from audit clients, for example) are available at a nominal fee. For more information, contact: Communications Department, Texas Society of CPAs, 1421 West Mockingbird Lane, Suite 100, Dallas, Texas 75247-4957. Telephone: (214) 689-6000.

interest is knowing how to keep more of what they make, that is, how they can save on taxes.

Client retention is largely based on the fact that clients who are enthusiastic about the services their CPA firm provides don't take their business elsewhere. If they think of you as part of their management team—people who can help them make and retain more money—they are less vulnerable to being wooed by competitors and more likely to refer good clients to you. ☑

—by Donald B. Scholl  
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*Editor's note: How to identify and deliver services clients want will be described in Part 2 of this article.*

## TAKING ADVANTAGE OF CLIENT PERCEPTIONS (PART 2)

February 1987

Part 1 of this article, which appears in the January issue, dealt with conducting a survey to find out how clients see your firm, and the types of services they want. There are several points to consider, however, before going ahead with a survey.

First of all, it is essential that the firm be truly interested in using the feedback. The partners must be willing to make whatever changes are indicated and appropriate. Clients will expect this. The firm should also respond promptly if someone expresses a specific concern. This is particularly important if the individual signs the questionnaire, or if the concern was expressed during an interview. In these instances, the client is being explicit about his or her unhappiness and deserves a prompt resolution.

The responses to any survey will appear to have a negative bias. This is to be expected. After all, you are asking clients to criticize your firm, and the responses are never going to indicate 100 percent satisfaction.

The bias does mean, however, that the survey results should be realistically evaluated, with the evaluation concentrating on what the data are really saying. If you are using the Texas society survey, for example (see last month's issue), check whether you are scoring several points below the average data. Determine whether your clients are sufficiently unhappy and you ought to be really concerned.

See if there is a trend in the data that indicates clients are anxious for more services. Try to find out exactly what type of service can be beneficial to your clients in general, and give some thought as to whether you have the capabilities they want. If there is a trend in the data, look for specific requests. Again, it is imperative to respond promptly.

### **If you've got it, flaunt it**

If you have services available in the firm which, based on the survey results, appear to be the types that clients lack, this is the ideal time to start publicizing your capabilities in these areas. There are many ways to get the word out that you can provide services that will benefit your clients. Descriptive articles (case studies) in newsletters and specialized brochures are two possibilities. (Make sure the brochures are distributed and not stacked in your store-room, though. The latter happens quite frequently.)

Direct marketing by partners and staff through speeches and seminars is another possibility. You could, for example, give speeches on a subject such as "Introduction to Estate Planning," or a half-day seminar on a topic such as "Inventory Control Systems."

The next steps are identifying specific services that would benefit individual clients and setting up appointments to discuss these services with them. Give current clients the first opportunity to take advantage of a new service or one that you discover they don't know about. Don't let them hear about these services elsewhere—you want them to refer more good clients.

Staff members can play a substantial role in these efforts because they are the people spending much of their time in the clients' places of business. They should, therefore, be encouraged to look for additional service opportunities—through observation, by questioning executives of the client firm, and even by picking up clues in casual conversation with appropriate client personnel.

Staff responsibilities in expanding services to clients lie primarily in recognizing opportunities. A partner or specialist may be needed to make the presentation and close the sale. If staff members can handle these steps too, however, so much the better.

Another technique, used by all too few firms, is, whenever a special project is performed for one client, to immediately determine whether other clients might benefit from the same type of engagement. If so, the firm should undertake an organized campaign to offer the service to them. In some instances, this type of "standardized" engagement offers opportunities for value billing and getting away from the usual trap of rate multiplied by time.

For many of these added services, there is no particular urgency involved, and the engagement can be performed when it suits the CPA firm's work schedule. A good point about these services is that they put the CPA in a proactive mode, rather than in one of just reacting to clients' ideas.

### **How to deliver the services clients want**

Firms must be organized so that it is both possible for partners and managers to be proactive and innovative, and for needed services to be delivered on a

timely basis. This means that the primary concerns of partners and managers should be in the areas of consulting, managing (the firm), quality control, and supervising staff.

It is the staff accountants, after all, who were hired to do the financial statements, tax returns, budgets, etc. The reality is that staff accountants must be highly productive, and many firms find that the best way to ensure this, and to promptly deliver services such as tax, estate, retirement, and personal financial planning, is to departmentalize along these lines.

In the last few years, firms have been getting into other service areas such as communication consulting, conducting insurance reviews to determine coverage requirements, and providing clients with turnkey microcomputer operations. It is often necessary to hire people with the requisite skills to deliver such services. For example, some of the larger CPA firms have even bought entire concerns; such as consulting firms, in order to obtain the necessary expertise.

CPAs are increasingly becoming members of industry associations in order to develop or publicize their expertise in certain areas. Many of these organizations will permit associate membership, and joining makes sense for CPAs who want clients in a particular industry. You can attend the meetings, write articles in trade journals, have a booth at trade shows, and let other members know that your firm can provide them with specialized services.

Other CPA firms have formed associations to provide certain services such as those relating to per-

sonal financial planning and bankruptcy (LINC and AIA). An increasing number of firms have developed specialized niches and concentrate on a particular industry or profession. Some firms specialize in a service such as litigation support, and sometimes this work is referred by other CPA firms which don't want to develop the necessary expertise in that particular field. Yet another way to deliver beneficial services is through joint ventures with other CPA firms.

These efforts can all make a difference. First, get present clients in the best possible shape, find out their perceptions, and show them that you really care. Be excited about them and their businesses, and about new applications of your professional services. A little excitement can be infectious and do much for the people around you—clients, staff, and partners.

There is profit potential in doing good work and in delivering the types of services clients know can benefit them. There are opportunities to value bill and replicate the services to other clients whose businesses could benefit from application of the same ideas. Perhaps it is worth repeating a concept from the first part of this article: If clients think of you as part of their management team—people who can help them make and retain more money—they are less vulnerable to being wooed by competitors and more likely to refer good clients to you. ☒

—by Donald B. Scholl

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## FACTORS IN CHOOSING AND CHANGING CPA FIRMS

September 1978

Corporate financial officers and members of audit committees indicate that technical competence is the single most important characteristic they look for when selecting or evaluating a CPA firm.

However, a study, part of an opinion survey sponsored by Deloitte Haskins & Sells and conducted in October and November 1977 by Reichman Research, Inc. of New York City, revealed that there are several other factors that play an important part in the selection procedure.

The opinion survey was based on personal interviews with 956 individuals representative of six specific groups, and almost half of the respondents were corporate financial officers.

In this particular segment of questioning, respondents, who in an earlier question indicated that they are involved in the evaluation process (this eliminated two groups), were shown a list of 24 items from which they were asked to single out the characteristics they consider most important in selecting or evaluating a CPA firm.

Corporate financial officers and audit committee members agree on the order of four items at the top of the list.

Technical competence is rated the most important characteristic by 70% of the corporate financial officers and 77% of the audit committee members. Next is the overall reputation of the firm (60% and 61%) followed by the quality of work performed (50% and 57%). Experience in their industry is the fourth item according to 47% of the corporate financial officers and 48% of the audit committee members.

Other items deemed important by the financial officers are: that the CPA firm provide a full range of auditing and related services (42%); the overall quality of service provided (42%); the level of experience assigned to the audit team (39%); and the depth of the firm's personnel (37%).

The audit committee members think the depth of a CPA firm's personnel is the fifth most important characteristic (48%), followed by its com-

mitment to ethics (43%), and a provision for a complete set of auditing services (39%).

The corporate financial officers were asked to name the factors which would cause their company to consider changing audit firms. The first four of these are: a major decline in the quality

of service (38%); if fees were to go too high (24%); a difference of opinion on major accounting issues (14%); personality problems resulting in an inability to work together (11%); and a major change in quality of personnel (11%).

## A MAGIC ELIXIR FOR PROFESSIONAL BUSINESS SUCCESS

April 1987

Many smaller professional firms find it difficult to effectively compete on the basis of price. They often find, too, that the seemingly attractive alternative of keeping costs down can backfire when those efforts adversely affect clients' perceptions of the practice.

We are all familiar with the telltale signs: the architect who is too busy to answer telephone calls from clients; the accountant who promises a client's tax return by March 15 each year, but who always has to file for an extension; the doctor who, rather than bringing partners into the practice, keeps patients waiting three hours for a five-minute examination. Each of these professionals fails to act as if the client's business is really wanted.

Therein lies the least appreciated potential for competitive advantage in today's business world. Treating clients as if they were important to the practice can bond them to you and increase profits for years to come. Satisfied clients not only remain with the firm but refer new clients to you. Dissatisfied clients, on the other hand, tend to "vote with their feet." They also are inclined to relate their experiences to others.

Good client relations take time and conscious effort, day in and day out. You can differentiate your practice and make it stand out from the competition, however, by giving your full attention to the needs expressed by clients.

Five factors help nurture client relations:

- ☐ Set good policy and stick with it. "The client is always right" should be more than a slogan. Nobody likes to be wrong or admit to an error. The client service philosophy should focus on the cli-

ent, however. Explain to staff that it is better to assume the client is right than to lose both revenue and credibility.

- ☐ Train staff thoroughly and reinforce often. Don't permit anyone to treat clients like adversaries or as impositions. Every client wants to feel important and understood and will patronize a firm that cultivates such feelings.

- ☐ Both talk to clients and listen to them. Find out what is bothering them and fix it. Everyone wants to be heard, but not enough people are willing to listen.

- ☐ All clients should be considered important and treated accordingly. Meet deadlines and make it a business commandment that computer foul-ups are never to be used as excuses. Nowadays, people are savvy enough to know that computer errors are caused by people.

- ☐ Let your prices follow your service. Business growth tells you how well your plan is working. As business expands, you can raise prices in accordance with the quality of the services being provided.

Sound too easy to be true? For many it isn't easy, though. It requires a significant and sustained effort. All members of the firm must work consistently toward these goals and persistently treat clients as if their patronage were wanted. Once the commitment is made and the effort follows, your initiatives will be rewarded. Clients will think of your firm first for professional services. ☒

—by Ernest Ten Eyck, CPA  
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## DO YOUR CLIENTS GET ENOUGH ATTENTION?

February 1984

Today's best-sellers on management and future trends are *In Search of Excellence: Lessons from America's Best-Run Companies*, by Thomas J. Peters and Robert H. Waterman, Jr.,<sup>1</sup> and *Megatrends: Ten New Directions Transforming Our Lives*, by John Naisbitt.<sup>2</sup> Both books emphasize two things: (1) the customer/client is always paramount, and (2) managers

<sup>1</sup>Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence: Lessons from America's Best-Run Companies* (New York: Harper & Row, 1982).

<sup>2</sup>John Naisbitt, *Megatrends: Ten New Directions Transforming Our Lives* (New York: Warner Books, Inc., 1982).

are coming, to use a term from the latter book, from the ranks of the baby-boomers. Baby-boomers are those people who were born between 1946 and the early 1960s.

CPAs have long recognized that positive client relationships are vital. Positive client associations have been obtained through the provision of high-quality technical service, advice and counsel. However, beyond performing the engagement, client contacts have been limited. Perhaps a tax update, along with a social hour, might be offered once

a year but, apart from this, little effort has been devoted to formal meetings or interaction with clients. The lack of focus on repetitive client consultation is an outgrowth of most partnership agreements wherein billable hours has become the key ingredient in determining profit allocations. In our changing environment, this lack of formal planning for meeting with clients is insufficient.

Baby-boomers are significant, if for no other reason than the sheer size of their numbers and the fact that the managers of the late 1980s will come from their ranks. They are computer literate, question traditional forms of organization and want to participate in the decision-making process. They want to become entrepreneurs. Six hundred thousand new businesses are started each year. These entrepreneurs are now coming from the ranks of the baby-boomers. They represent CPAs' current and future markets.

It is a truism that survivability of an accounting practice depends upon acquisition and retention of clients. However, CPA firms are dominated by senior partners—mature (older) individuals who tend to use past experience for the solution of today's (and tomorrow's) problems. They are also inclined to be involved in professional activities and concerned with the adequacy of financial resources to insure their impending retirement. Unfortunately for the firm, however, the market environment is dynamic and ever-changing. Today, each client is more sophisticated, wants more attention and has unique needs. A traditional, laissez-faire, uniform approach toward all clients will no longer work.

In today's environment, client acquisition and retention require separate recognition and planning. Both planning and implementation must be formal with accountability for results, and more time must be spent with present clients (albeit non-billable) because retention is the key to referral of new clients.

Prior to meeting with clients, however, the firm must analyze (1) current services performed for each client, (2) services *not* performed for each client, and (3) services that it can provide. Subsequent to a specified date, and after initial meetings with clients have been conducted, each CPA with client responsibility should make a formal report to the executive committee. A progress report is vital!

Initial conferences should be broad and open-ended. They should have two objectives: (1) to discover and assist in the solution of client problems and (2) to make the client aware of and contract for additional CPA services. Typical questions (the answers to which should be reported to the executive committee) might be the following:

- ☐ What business are you in?  
(Back to the old cliché: Railroads are in the transportation business, not in railroading.)

- ☐ What are your personal, long-range goals?  
(For example, retirement: pensions, estate planning, going-public, management succession, etc.)
- ☐ Are costs adequately controlled?  
(Cost and profit centers, standard costs, computer software and hardware.)
- ☐ How do you compare with your competitors?  
(Market share, industry ratios, trade association data, Bureau of the Census statistics.)
- ☐ Is personnel turnover acceptable?  
(Are key personnel identified? Is turnover of non-key personnel too low? Or, too high?)
- ☐ Do you engage in "informal" profit planning?  
(Rates of return, break-even analysis, direct costing, cash management.)

If nothing else, the forgoing inquiries show clients that you are interested in them, their firms, their successes and their survival. More important, the average small-business person doesn't have either the time or the inclination to ask these questions. If the CPA knows as much about the business as the client does (which he should), the resultant two-way communication should provide some interesting answers.

When reports have been reviewed, it should become apparent to the executive committee that a market exists for certain ancillary services. Now, the firm faces a challenge: either develop or otherwise acquire those skills necessary to provide these services or maintain the status quo. That is, it must decide whether to become a full-service firm or whether the current organization is satisfactory. It should be obvious that retention of the status quo is the inevitable direction toward extinction. Thus, the logical decision is to fully serve all clients' needs compatible with operating a CPA practice.

The forgoing de facto self-examination should provide the following advantages:

- ☐ Young partners will appreciate the opportunity to increase their knowledge and intellectual skills.
- ☐ Young partners will see the potential for increased gross revenues.
- ☐ Staff accountants will appreciate the potential for advancement.
- ☐ The firm, as a whole, will be oriented toward dynamic change that will benefit clients. Lethargy and inertia should disappear.

In effect, this process utilizes clients to direct the firm toward changes necessary for survival and expansion. Moreover, it builds on the basic premise that CPAs should be thinking of, assisting and advising clients to grow through profit maximization. Further, it offers no disadvantages! Try it.

—by John B. Sperry, CPA, Ph.D.

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## Section 6

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## GOOD COMMUNICATIONS: THE KEY TO GOOD CLIENT RELATIONS

October 1986

It may seem strange to begin an article on client relations with a paragraph on billing practice, but there is a good reason for this. Sometimes, a carefully developed client relationship can be damaged by the manner in which the bill is rendered. The receipt of your bill could be a jolt to a client and result in questions as to how the fee became so large. In many cases, frequent communication can minimize this danger.

Interim billing is usually more effective in maintaining good client relationships than sending one large bill at the end of an engagement. Firms might also want to consider using descriptive billing because clients tend to forget much of what an engagement entailed.

Descriptive billing does not necessitate listing specific details of every service performed. Most clients are not interested in that. Rather, the use of broad categories provides adequate explanation for most clients. Bills, however, should be sent regularly and promptly if timely payment is desired. Regular communication will remind clients of their obligations.

Fee changes also affect client relations. No matter what fee strategy a CPA firm chooses, there comes a time when cost, demand, and competitive factors dictate that fees be changed. It is useful both to consider whether the changes should be selective or across the board and how different groups of people—competitors, staff members, and clients, for example—will react.

The reactions of clients are the most important of these considerations. Predicting how clients will react is difficult, though, and this uncertainty points to the need for firms to conduct exploratory surveys and market tests to determine the best approach.

Some professional service organizations have a policy of never negotiating over fees. Assuming that the fees have been carefully formulated to take account of prevailing market conditions and that the firm has a sufficiently strong reputation in its service area, such a policy can be an effective way for a firm to avoid the perception of being too preoccupied with fees. Negotiable or nonnegotiable, however, the fees must be seen by clients as reasonable for the quality of services provided.

### Communicating

Confidence begins to build in clients and prospects when the CPA shows an understanding of their problems and can communicate an ability to solve these problems. Ordinarily, just demonstrating technical knowledge is not enough. To truly commu-

nicate, the words we use must also convey some sort of emotion, such as inspiration, enthusiasm, and sincerity. The actual process of building confidence in others may be initiated in various ways: for example, by giving a speech on income taxes at a civic or business club luncheon.

The effectiveness of such a presentation (or even of a written message) depends on the individual professional's ability to communicate that knowledge. A well-organized and well-delivered speech on a timely subject can be a useful client relations tool. The presentation should be paced and styled to meet the expectations of the particular audience. There is no need to overperform. Nevertheless, some thought should be given as to how the speech will be delivered.

There are times—for example, when giving a highly technical presentation or when one does not wish to be misquoted—when a written speech is useful. Normally, however, an extemporaneous speech communicates more forcefully than one that is read to the audience. This is primarily because thoughts and words are developed on the spot in an extemporaneous speech and reflect the speaker's emotions at that time.

From a client-relations standpoint, it is difficult to appraise the relative value of speeches versus articles and papers. While a good speech probably has greater immediate impact, its audience is limited in size. An article, on the other hand, can reach a far larger audience, and its impact can be of greater duration. Thoughtful papers and articles on timely and interesting subjects are accepted instruments of practice development. They reflect favorably on the firm with which the author is associated and stimulate demand for its services.

### External publications

To be effective client-relations vehicles, a firm's external publications should always be directed to a particular person rather than just being sent to a company or organization. Newsletters and bulletins, in particular, can serve as ongoing voices of the firm, conveying its position on important developments in accounting, auditing, and financial reporting. They can be used to notify clients of changes in the tax law and to convey information on new management methods and techniques that clients can use. They can also be used to inform clients of personnel changes, promotions, and additions, and of new products and services the firm can offer.

Firm brochures also have an important place in a firm's client-relations activities. If well designed, they can tell clients and prospects a lot about a

firm—its capabilities in various service areas, the experience and competence of the people who provide the services, and ways in which the firm is unique. While a firm's external publications don't all have to look alike, there should be some unifying identity to its printed materials—stationery, envelopes, business cards, reports, and so on. For many clients, a distinctive logo fills the bill.

#### A two-way process

Good communication is a two-way process. It means that not only should a CPA firm notify clients and prospects of its capabilities and the services it offers, but also that its personnel should learn to

become aware of clients' actual and perceived needs. In addition to responding to questions and helping to solve problems, firms can take a more active role by suggesting ways they can better serve clients. Good communication can be a tremendous help in retaining present clients and obtaining new ones by letting them know exactly how the CPA firm can benefit them. ☒

—by Gregory D. Slapak  
San Francisco, California

*Editor's note: Mr. Slapak is director of communications and public relations for Hood and Strong, a local CPA firm in San Francisco.*

## WHY NOT TURN "CASUAL CONVERSATIONS" INTO BILLABLE EVENTS?

January 1988

During a conversation at a recent MAP conference, one of the practitioners mentioned that he had regular meetings with clients, but that these were usually just casual discussions and did not really amount to much. He indicated that there was a need for a specific form that would facilitate the follow-up of such meetings. While I did not know of such a form, I agreed that it seemed to be a good idea.

I pointed out that these meetings should be considered a valuable part of any engagement—that the discussions are probably of greater value to the client than the financial statement or tax return that is being delivered or picked up.

If we accountants are going to convince ourselves that we do indeed provide consulting services, we first have to get away from the "finished piece of paper" mentality. We have to free ourselves from thinking that preparing financial statements, tax returns, etc., is the only type of work we do. We have to convince ourselves that what we say is just as important, and in some instances more important, than what we do.

Once we change the way we view our services, why not make the notes we take at client meetings a valuable part of our work papers, build the meeting into an engagement, and turn it into a billable event? A meeting follow-up form might help us do this.

You can design your own form such as the example. To be practical, the form should, at the minimum, include the following items: client name, client number, location of meeting, time started, time ended, items you wish to discuss, items the client wishes to discuss, action you are to take as follow-up to the meeting, action the client is going to take as follow-up to the meeting, and any other items that come to mind.

One other suggestion is that you make it clear to clients that you are providing a valuable service in meeting with them. You may or may not bill for this

service—but don't assume that you won't. You *hope* that something will be accomplished that will enable you to bill.

CPAs' services for clients might be likened to a doctor's visit. The patient hopes the diagnosis will be that nothing is wrong because, among other things, it will cost more for the doctor's additional time. The patient never expects to obtain the initial service for nothing, however.

We have to communicate to our clients that every meeting is important and that our time and services are valuable. No discussion of client business is informal or casual.

#### CLIENT MEETING PLANNER/FOLLOW-UP

CLIENT NAME _____	CLIENT # _____	DATE _____
LOCATION _____	TIME START _____	TIME END _____
ELAPSED TIME _____		
IN ATTENDANCE: _____		
OUR AGENDA: _____		CLIENT AGENDA: _____
_____		_____
_____		_____
_____		_____
OUR FOLLOW-UP ASSIGNMENT _____		DATE _____
_____		_____
_____		_____
_____		_____
CLIENT FOLLOW-UP ASSIGNMENT _____		DATE _____
_____		_____
_____		_____
_____		_____
MINUTES: _____		
___ TYPED ___ PHOTOCOPIED ___ MAILED ___ DELIVERED ___ PICKED UP		
COPIES TO: _____		
___ TO BE BILLED _____		MEMO BY: _____



Using the form signals the beginning of an engagement. It formalizes the structure of the meeting and is a record of it. The purpose of the worksheet is to turn the meeting into a billable event. It marks the beginning of service to the client.

The form should also have space in which to note whether the minutes are to be typed or photocopied, and if they are to be mailed or delivered to, or picked up by the client.

As a method of keeping the whole firm up-to-date, it might also be a good idea to indicate who else in the firm should receive copies of the minutes for further follow-up service to the client. It is important that we continually be on the alert to cross-sell between partners or departments in the firm.

## CLOSE ENCOUNTERS OF THE FIRST KIND

Eyeball to eyeball contact with prospective clients (the buyers) is always the best way of securing (selling) an engagement. There has never been a brochure, letter of recommendation or proposal written that will do the job you can do in person. So place yourself with a prospective client whenever you can.

How much does your firm spend on written proposals? Undoubtedly too much.

Those one-inch thick, boring proposals sell little. I'll bet the ultimate decision maker doesn't read them. (If he's a busy and effective executive he shouldn't read them.) He's interested only in a few accounting oriented matters.

- ☐ Can he "live with and be comfortable with" the people in the accounting firm?
- ☐ Are they competent?
- ☐ Fees.

The rest of the information in the written document is, as far as he is concerned, secondary.

The proposal serves a real purpose as a confirming document, but it is clearly not what clinches the engagement. The people interacting with the prospective client will do that.

Consider the following observation: If accounting firms spent as much on preparing effective oral presentations as on written proposals, they might increase their success rate 100 percent.

Obviously, sometimes proposals are necessary, even valuable. However, you should never mail proposals. Carry them to the prospective client and review them carefully with him. When this is done, you are in the selling and closing process once again. Did you ever consider what your mailed proposal is accompanied by? (The *Wall Street Journal*, complaint letters to the president, junk mail, etc.)

Even at oral presentations you should not hand out proposals until the presentation is completed.

Remember, clients often don't know the full scope of services your firm renders. You have the duty and obligation to let them know of their needs and your capabilities.

Selling is not an unacceptable word. Selling skills should be part of the marketing arsenal of every CPA firm today. In fact, it is truly amazing how easy it is to obtain additional business from present clients simply by making yourself available and asking how you can help. Following up on client meetings can result in closer bonds with clients and increased profits for your firm. ☒

—by Morrey Shifman, CPA  
Springfield, Ohio

Practicing CPA, January 1988

February 1978

It is too easy for the prospective client to pay attention to it instead of to you.

The proposal should be primarily an in-person tool to help you show the client why he needs your services. Telling him in a letter is not as effective as going over each item with him.

A well-done brochure, while necessary, does not persuade anyone. Too often, the buyer reads it and then thinks, "Well now, I know all about them — or what they are like — or what they do." The implication is that now he does not need to talk to you. Your goal should always be to meet with prospective clients. Brochures frequently neutralize the need to do so in the mind of the client; therefore, don't hand them out until after you have met and talked.

What's the most important time when you make a one-hour speech? It's the 15 minutes following. If someone asks you for information about your firm or its services, don't give it to him and don't hand him a brochure either. Arrange an appointment.

When people call or write saying, "Why don't you put some information in the mail for me?" don't do it. It's usually the last you will hear of them. Instead, arrange an appointment. Think about this! How can a brochure ask questions, show insight, really hear about problems or offer the right kind of suggestions? Only you can do that, at a meeting with that person.

You, the auditor, tax adviser, MAS partner, manager or supervisor, are the best, most effective first impression your firm can make. You only have one chance to make a good first impression, so always make it eyeball to eyeball.

—based on material supplied by Mike McCaffrey,  
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## CREATIVE PUBLIC ADDRESSES

July 1981

As a CPA, there probably will be occasions during your career when you'll be called upon to make some type of public presentation. For example, you may be asked to address participants at seminars or colleagues at meetings. Or perhaps your firm's recruiting and practice development efforts will necessitate your speaking to students at local colleges or to members of various civic groups.

The experience need not be an unpleasant one, either for you or your listeners. While few individuals have a natural flair for public speaking, there are skills that can be learned to help you feel more at ease behind the lectern and give an effective presentation.

In her former capacity as AICPA speakers referral service coordinator, Margo Jossem, manager, CPE marketing at the Institute, prepared a lot of material to help speakers with their presentations. Here are just a few of Ms. Jossem's suggestions for improving speech techniques.

The first thing to do on accepting a speaking engagement should be to get some information on the group you will be addressing. Find out the nature of the group and the needs and interests of its members. You will also want to know the number of people who will be in attendance and if the group will have background information on the presentation topic. The answers to these questions will help you determine whether your presentation should be formal or informal and what levels of knowledge and technical language are appropriate for the audience.

Impromptu presentations—i.e., delivered without preparation, are not recommended unless you are a really good speaker, and memorized speeches are best avoided too—they can be deadly. Speaking extemporaneously, using notes or an outline, or reading from a manuscript are far better approaches. In most instances, talking to your audience is preferable to reading a speech because it is easier to establish rapport with listeners if you are using a conversational tone.

There might be times when it is best to read a speech, such as when someone else has prepared the material or when it is about technical matters or deals with policy. Then, in the event that you are misquoted or misinterpreted, the manuscript can be used to set the record straight. However, an informal but planned approach gives you greater flexibility and generally seems more natural. (The notes or outline keep you from rambling.) Whatever approach you use, in order to maximize the impact of your message, organize your speech into three parts: introduction, body and conclusion.

When beginning a presentation, your primary concern is to get the attention of your audience. You don't want to launch into the body of your speech until you are sure people are ready. There are several introductory devices you might use. These include anecdotes, rhetorical questions and quotations, or you could make comparisons or even try to shock your audience; much depends on the nature of the subject on which you are speaking and on your own particular style. In any event, your introduction should lead smoothly into the substance of the topic so that the audience has no doubts as to the purpose of your presentation.

While the introduction may set the tone of your speech and the mood of the audience, it is the body of the speech that conveys your message. This message consists of several parts which are developed through the use of facts, statistics, examples or analogies, etc. The body of the speech must be logically structured so that the information can be assimilated.

Don't overlook the importance of the conclusion to your speech. Aside from signaling that your presentation has ended, the conclusion should summarize and reinforce the main points of your message. This repetition of ideas serves to increase audience comprehension and retention. Finally, to complete your presentation, you might try using an adaptation of the anecdote or other remarks with which you began your speech.

No matter how meaningful the speech, a poor delivery will make it sound dull and unimportant. However, a dynamic delivery will enhance even a mediocre speech, so you should be aware of the elements that contribute to a good presentation.

Speaking before an audience requires a certain amount of vocal dexterity since the voice you use in everyday conversation is generally not suited to public speaking. You must adjust your volume according to the size and acoustics of the room in which you are speaking. Speak up if you are normally soft-spoken, and don't trail off at the end of a sentence or muffle your voice by burying your head in a manuscript. Use a microphone if the group is large and check its sensitivity to shifts in your position or wear a neck microphone if you move from the podium.

You should speak at a pace that allows listeners to follow—remember, the audience is hearing your presentation for the first time. Even so, you will want to vary the tempo—slowing down when presenting difficult concepts or important information. If you are nervous, you are likely to speak quickly; make a conscious effort to slow down.

An expressive voice is the key to a good delivery. Variations in rate, volume and pitch create interest, sustain attention and reinforce the meaning of what you are saying. Keep in mind that a speech is a performance and that to be effective your voice must be flexible. So, emphasize key points by increasing volume, pause when you anticipate audience response, slow down when introducing new thoughts and elongate vowels for dramatic effect. For a really polished performance, though, you will have to give some thought to the part your overall demeanor will play.

It is important to look directly at the audience and make listeners feel that you are talking to them individually. Good eye contact not only makes your speech more personal but also helps in establishing rapport with the audience. To achieve this throughout your presentation, you might try

- ☐ Becoming thoroughly familiar with your speech so you are not so dependent on the outline.
- ☐ Mentally dividing the audience into four sections and making visual contact with each quadrant at some time during the speech.
- ☐ Avoiding looking at the floor or the lectern.
- ☐ Directing your focus—don't look out into space.
- ☐ Compensating for a natural tendency to face one side.

Your posture is important, too, as it often reflects how you feel about your presentation. Ideally, you want to appear confident and composed, but if you are an inexperienced speaker, you may feel vulnerable and self-conscious. Fortunately, one often stands behind a lectern when giving a speech. Although you don't want to hide behind it, it does cover shaky knees and helps you feel less conspicuous.

Try to be aware of your movements without looking awkward about it. Gestures of the head, shoulders, arms and hands can be used to convey meaning and emphasize ideas, but if clumsy, they will distract the audience. You can practice your speech in front of a mirror to see if certain gestures seem unflattering. Keep them to a minimum if you feel uncomfortable.

When used properly, visual aids can stimulate interest in and clarify your message, and add variety to your program. Your selection of the type to use: chalkboard, flip charts, slides, film or video, etc., should be based on the speech topic, the size of the audience, the room arrangement and the amount of time allotted to your presentation. The aid must be clearly visible to the entire audience, and its use must be carefully planned and rehearsed. Make sure that you or the person designated knows how to operate the equipment. Above all, only use a visual aid when it will enhance your presentation.

To leave a really lasting impression with your audience, try distributing handout materials upon the completion of your speech. These, which can include booklets, reprints of magazine articles, outlines, diagrams, bibliographies, etc., add another dimension to your program and will help listeners think about and remember your presentation.

While these suggestions can tell you what makes successful speeches, nothing beats actual practice, and you will find that the more often you speak, the easier it becomes. After several presentations, you will have developed your own style, will feel comfortable and confident, and will notice people in your audience nodding to each other in agreement with your conclusions, rather than supporting their chins with their hands.

## HOW TO GET PEOPLE TO LISTEN CAREFULLY TO WHAT YOU ARE SAYING

May 1978

We all communicate with many people each day and, in addition, are constantly bombarded with radio and television advertisements. Consequently, we tend to tune out much of this communication and become selective listeners. In order to get someone's attention, it is essential to get on his wavelength.

Personal communication starts with asking intelligent, probing questions that encourage people to think. These can be quite general questions such as, "What do you think about this project?" to a fellow employee, or to a potential employee, "What are some of your strong points?" But the answers will reveal the other person's attitudes and give you a starting point when you speak.

The questions can be more specific should you wish to focus the conversation. For example, if you wish to suggest a major change to a client, you could first ask, "What directions do you see your company taking in the next five years?" Based on the reply, you can then talk in terms of that five-year plan and have the client's full attention. And don't forget about body language when using this questioning technique. We are visually oriented, and often a look will speak louder than words. Think friendly and you will communicate that way. Naturally, you must remain silent if you want others to initiate the conversation, but form a question in your mind and let it show on your face. You will be surprised at how people open up to you.

Mentally summarize what the other person is saying and trust your mind to formulate a good response. If your attention fades, ask a clarifying question or offer feedback.

Feedback is a two-way communications tool. It is an excellent way to show clients that you are listening to them, and to encourage them to continue talking and to listen carefully to what you are saying. Here are five ways of utilizing feedback:

- ☐ *Rephrasing to encourage elaboration.* By rephrasing something said to you, you can encourage a client to expand on the subject or to shift his perspective. For example, if a client says, "We plan to double our product line in the next 18 months while only increasing our sales force 20 percent," you could say, "You plan to expand your product line much faster than your sales force then." This would encourage further communication.
- ☐ *Interpretation to shape someone's thinking.* If you can interpret the attitude of the person with whom you are talking and converse accordingly, you can more easily get through to him. For example, a defensive person would mentally block out things he did not want to hear such as criticism. By taking a constructive approach to what he is telling you, such as agreeing about the difficulties of the situation, and demonstrating your willingness to listen, you can focus his attention on solving the problem at hand.
- ☐ *Empathizing to communicate understanding.* Often there is no need to take a stand, or to take sides or acknowledge the source of any fault. If you can convey to clients that you understand their feelings and that you wish to know the facts, they are more likely to listen to you and agree on the appropriate action that should be taken to rectify whatever problem exists.

- ☐ *Reinforcing to expand on what they say.* As you ask questions, listen and offer feedback, people will make points with which you can agree. When they do, increase the importance of what they are saying by agreeing with them and expanding on what they have said.
- ☐ *Refocusing to direct the conversation.* This type of feedback can be used to focus the client's attention on the benefits of what you are suggesting and away from any drawbacks or arguments that he was raising. An example of this would be a situation in which a client complained about an increase in fees. You could agree that the fees were higher, but point out that extra time had been spent on tax planning which would benefit the client in the long run.

Getting people to listen carefully to you involves talking their language and using their thinking as a springboard for what you have to say. This is the main reason for starting a conversation with some probing questions.

By providing feedback, you make it easier for a client, or any one else for that matter, to accept what you are saying. It is almost as if you are merely elaborating on what they were saying. How could anyone argue with that?

While rephrasing and empathizing encourage people to say more, these are neutral approaches to feedback. However, interpreting, reinforcing and refocusing do allow you to exert some control over the conversation. They allow you to make statements that are accepted without raising any defenses.

These are good ways to get people to listen carefully to you.

—Based on material supplied by John Short,  
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## IMPROVING CLIENT COMMUNICATIONS

January 1978

Whether the subject is a recommendation to strengthen internal controls or advice on a new tax law, every CPA can enhance the value of his written communication with clients by focusing on two critical areas:

- ☐ The *tone* of the communication.
- ☐ The presentation of *benefits*.

Simple changes in each of these areas can make communications more client-centered and help clients to understand why they are investing in your services—namely, to help them run their businesses and personal finances better.

### *The Tone*

Though not intentional, the tone that a written communication projects to clients is often negative, or seems to scold or talk down to them.

CPAs can project a more positive, helpful tone in written communications by making themselves and their staff aware of *trouble words*. Such words fall into two categories.

The *we* orientation occurs when CPAs start too many sentences with phrases such as "In *our* audit, *we* found that . . ." or "We recommend that . . ."

*Parental* words are those such as *must*, *obvious*, *should*, *inadequate*, *proper* and *timely* that when overused make the client feel that he is being scolded, not helped.

An easy and reliable test can be made to determine whether your written communication projects a positive tone.

Select a recent three or four-page letter written to a client and circle all the *we* oriented and *parental* words in red. Then circle all the positive references to the client (e.g. *Management* has made the necessary changes, etc.) in blue.

If the letter has a lot more red on it than blue, it is probably not projecting a positive, helpful tone.

The best way to improve the tone of future communications is to make everyone aware of the *trouble* words so that they will be used less frequently.

This can be done by putting a list (and perhaps a copy of this article) of the most often overused *trouble* words and phrases in a highly visible place or by discussing the tone of your firm's written communications at a staff meeting with some examples.

A periodic review using the test described earlier, will help assure that awareness will be maintained and that old habits won't return.

#### *The Benefits*

CPAs should remember that the benefits derived from professional accounting and tax services may not be as apparent to their clients as they are to themselves. The recommendations may yield important benefits to the client by, for example, reducing the chance of an IRS audit or by improving protection of assets.

However, most written communication does not clearly highlight such client-centered benefits and, instead, focuses on the reasons to implement the recommendation, such as to be in accordance with a new tax law or GAAP.

One way to test for a clear presentation of client benefits is by reviewing a letter to determine the number of specific topics discussed.

For example, in an auditor's management recommendation letter, each comment, such as the need to age accounts receivable or to reconcile bank statements more often, can be considered a separate topic. Almost every topic should include three parts:

- ☐ *The situation.* This could be a problem, opportunity, or the advent of a new piece of legislation, for example.
- ☐ *The recommendation.* This could be a final solution, an interim solution or a list of possible alternatives.
- ☐ *The benefits.* This could show what will happen if the recommendation is not followed. The good things that will happen if the recommendation is followed. And the reasons why the client should take action.

Examine each topic in the letter to make sure that it presents all three parts and in the same order. If incomplete or inconsistent, it will probably be difficult to read and clients may not see the benefits of your work.

You can improve written communications in your firm by providing staff members with an *outline* showing them how to organize each topic in the prescribed manner before writing a letter.

Consideration can also be given to highlighting each benefit in a separate paragraph with underlining where appropriate. This will help the client focus on the important messages that you want him to receive.

The written communications clients receive often represent the only tangible products of a CPA's work. Consequently, care should be taken that they are as well presented as possible.

These are a few simple ideas that every CPA can use to improve his written communications. They can be implemented during the approaching busy season and if they are, CPAs will find that their written communications have become a valuable client relations tool.

— Based on material supplied by Larry White,  
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Huntington Woods, MI 48070

## SMILE, YOU'RE ON CANDID CAMERA!

May 1980

Just as the use of computers is now spreading to smaller firms, even to individuals, so it seems the use of videotape equipment. Norman & Evans, Ltd., Phoenix, Arizona is an example of such firms. In fact, they believe strongly that, whatever the organization, there is probably a place in it for a videotape program.

Jim Norman of Norman & Evans, Ltd., says that video programs are an excellent educational, training, communicational and public relations tool. For example,

- ☐ *For educational purposes,* video cassette tapes can be purchased on a variety of business, technical and motivational subjects;

and blank cassettes can be used to record meetings, seminars and interviews and to practice speeches and presentations.

- ☐ *In training*, routine jobs and procedures can be recorded on videotape and presented again and again, with no deviation in the quality of presentation.
- ☐ *Communication* is aided by a "video journal." Tapes can be made of staff trips, demonstrations and meetings attended, and of speeches given by various people.
- ☐ *Public relations* can be made more effective through use of a tape describing the firm's products and services.

How do you start your own video program?

The first thing, Mr. Norman says, is to decide where and how you will use the tapes. Then you must determine what type of equipment will be needed for you to meet your objectives. Finally, you should appoint someone to be in charge of the program and make this person responsible for purchasing the equipment. And here's a helpful tip. Some local colleges offer classes in video—good both for training current employees and for finding prospective ones.

What equipment do you need?

Mr. Norman suggests at least two videotape recorders (VTRs), one of them portable; and a portable camera with a zoom lens. Then you will need extension cables, external microphones, a tripod, a wall mount for the camera, a regular television monitor, various adaptors, cords, connectors, ear-phone devices and a mobile storage cabinet.

The camera's zoom lens helps in taking close-up shots and in bringing distant action closer, and Mr. Norman says that simple copying and editing can be done on the VTRs. Apparently, black and white cameras can often be used with available indoor lighting, but special lights are usually required for color cameras.

He has two ideas for taking portable equipment into the field—waterproof plastic suitcase covers to protect against moisture and a foldup luggage carrier (with wheels) to help transport the equipment.

What does this all cost?

Norman & Evans, Ltd. spent just over \$6,200 on the equipment. The basic portable items—camera

and recorder—cost over \$2,900 between them and the VHS recorder was \$1,300. The cassettes and sundry articles accounted for the remainder.

The costs don't stop there, though. Over a one-year period, the time-related costs associated with evaluating, testing and learning how to operate the equipment, and the costs of various meetings, interviews and seminars came to \$3,800.

Mr. Norman says their video program is one of several projects in the firm to find better ways of communicating and teaching accounting and financial planning subjects. He says his experiment with video grew more out of his involvements with Toastmasters International and as an instructor in a CPA review course than from the CPA practice.

Norman & Evans, Ltd. now has approximately 54 hours of videotape, some of which was developed in-house and at seminars, while some was purchased. They have all of the AICPA's VideoFlex™ programs and consider them very effective. Mr. Norman is full of ideas for new video programs such as

- ☐ How to operate the computer.
- ☐ How to operate the word processor.
- ☐ How to answer the phone and handle people and prospective clients.
- ☐ How to fill out time sheets and justify billing with wording.
- ☐ Billing procedures.
- ☐ Fringe benefits.
- ☐ Preparing tax returns.
- ☐ File organizational techniques.
- ☐ Use of dictation equipment in CPA work.
- ☐ Business letters.
- ☐ Resumes of employees, consultants, etc.
- ☐ Profiles of clients.

Mr. Norman thinks the use of video will continue to grow, particularly as more and more employees acquire compatible equipment and can view the tapes at home. Editing the tapes is a difficult and expensive process and the production of programs for outside use is not something a small firm such as Norman & Evans can attempt. However, joint work on programs or sharing programs with other local firms is a possibility. If you're interested, why not contact Mr. Norman at 3550 N. Central Ave., Phoenix, AZ 85012?

## VIDEO STARS

June 1981

You had all those ideas for using video in the firm, you persuaded your partners to invest in the equipment, but now, your first few attempts at creating interesting, attention-holding programs have been, quite frankly, disappointing. Why?

You know it can't be the material. The people involved are all extremely knowledgeable about their subjects and are used to giving speeches or conducting training sessions. So why can't they get their messages across on a video screen? The

reason, you conclude, is that while highly-qualified CPAs they certainly are, highly-polished video stars they definitely aren't.

The main problem an industrial or professional firm faces is the comparison people make between its efforts at creating video programs and the slick productions they see on television. It often seems that either your video equipment has a disconcerting way of magnifying and distorting performers' gestures, mannerisms and voices, or else your staff has all kinds of tics, afflictions and curious speech impediments you hadn't previously noticed. What's to be done?

To begin with, you should look at your approach to using video. Very often, firms have treated it as a novelty or toy for executives to play around with. Unfortunately, this approach does not lend itself to creative programming. Far better use can be made of the equipment if one remembers that this is an electronic age and that video (television) is a widely accepted and growing means of communication. Because of this acceptance and because of the success made in miniaturizing, simplifying and reducing the cost of television equipment, video is now a practical way for a firm to communicate information or procedures and practices to selected audiences.

The first step then is to have a definite idea of how video fits into your overall communicative efforts before committing money or personnel. Once you know how you want to use the equipment, then you can concentrate on creating interesting, attention-holding programs. This is not always easy. That statement in the second paragraph, "You know it can't be the material," may simply not be true. Very often, in fact, the material is extremely dull. The key to successfully overcoming that dullness is good video communication.

According to Roger Shope, who directs the Institute's video productions, the best approach is a straight one, admitting in plain English that though the material is dull, our acquiring this knowledge will benefit us in this way or that. And regarding those disappointing video performances, Mr. Shope has a few suggestions that should not only help improve the quality of your firm's programs but should also help you in any appearances you might make on commercial television.

First of all, be careful what you wear. Neutral tones are better than extremely dark or light colors, and sharp contrasts in colors should be avoided. Also, be prepared to forgo wearing large pieces of shiny jewelry. These can be distracting to viewers. Can a shiny head be distracting too? Yes, apparently it can, and this and any slight

blemishes can be made less conspicuous through the use of makeup.

How should you behave in front of a camera? Be natural is your most likely answer. But is it the right one? The answer, unfortunately, is both yes and no, which is probably why your accomplished staff members look so unnatural in your productions.

Doing what you do in normal conversations just doesn't work in a video program. Each shot is a close up, so every movement is caught and appears distorted on the screen. The trick is to hold gestures to a minimum—control eye movements and facial expressions, etc., while allowing yourself to become spontaneous. You have to avoid sudden movements—e.g., a quick wave of the arm or moving too fast for the camera to keep up with you so you disappear out of the screen—but still look natural. To relax, try taking a few deep breaths or doing calisthenics before going on camera.

As a performer, you will sound more natural if you talk to the camera as you would to a person. Use normal conversational tones and remember that the camera is the channel through which you make contact with people. Lack of feedback can be a problem in holding the viewer's attention. So, be careful not to overload your audience with too much information or with complex technicalities, but don't appear too relaxed or casual. This, also can be dull and boring. Try talking to the viewers individually. Imagine that you are at home with a friend. In short, tune in to your audience.

If you have to use a script, don't try to hide it. On the other hand, if you use a prompter, make sure it is placed close to the camera lens. Which-ever method you use you should try to look as though you are talking directly to the person who is watching the screen. You won't always talk to the camera though. Sometimes other people are on screen at the same time. For example, an interviewer might be asking you questions. Then, the camera is eavesdropping on your conversation and you should look at the person with whom you are conversing.

To look really natural you must be well-rehearsed and have all the aids you need at hand. You obviously won't look natural if you stumble over lines, lose your place in a script or on a prompter, or have to rush back and forth for things you need. Finally, if you want to give a polished video performance, you must be aware of what is going on around you in the studio while you concentrate on the camera. This peripheral awareness will help you sail through mishaps and distractions with unruffled ease. In fact, you will be well on your way to becoming a video star.

## WHY NOT USE PLAIN ENGLISH?

September 1982

According to Malcolm Baldrige, Secretary of Commerce, the main reason people find it difficult to write simply and clearly is that this is hard to do. However, Mr. Baldrige believes that good prose is a prize worth pursuing and the following excerpts are from a style memorandum issued to Commerce Department employees.

Clarity and brevity are key factors when preparing a letter for the secretary or deputy secretary. The secretary wants short sentences and short words with emphasis on plain English. Use no more words than effective expression requires.

### Guidelines

- ☐ Answer questions specifically.
- ☐ The response should be no more than one page, where possible.
- ☐ If the response is negative, be polite, not abrupt.
- ☐ Avoid wordiness. Keep sentences lean.
- ☐ Use the active rather than the passive voice.
- ☐ Don't use unnecessary adjectives or adverbs.
- ☐ Please stop using affected, overused or imprecise words. Here are some examples.

viable	output
input	prioritize
hopefully	parameter (use
(use I hope)	boundary or limit)
utilize	alternatives
(prefer use)	(use choices)
maximize	optimize
target	finalize
facilitate	overview

- ☐ Avoid redundancies such as
 

serious crisis	important essentials
personally reviewed	final outcome
new initiatives	future plans
enclosed herewith	end result

The following quote from *The Elements of Style* by Strunk and White reflects Mr. Baldrige's style: "Vigorous writing is concise. A good sentence should contain no unnecessary words, a paragraph no unnecessary sentences, for the same reason that a drawing should have no unnecessary lines and a machine no unnecessary parts. This requires not that the writer make all his sentences short, or that he avoid all detail and treat his subjects only in outline, but that every word tell."

Excerpted from the May/June issue of *The Corporate Communications Report*, copyright © 1982 by Corpcom Services Inc.

## QUESTIONS FOR THE SPEAKER (PRACTICE DEVELOPMENT CONVERSATION) January 1983

The usual procedure at AICPA management of an accounting practice conferences is to have each presentation last just under one hour, followed by an informal roundtable discussion period of 75 to 90 minutes. There are generally seven to eight participants from similar size firms at each table and every effort is made to avoid seating people from the same locality together. This promotes free discussion of the established topic and allows the participants to relate it to problems and situations in their own firms. The groups are then encouraged to submit at least one question each for response by the speaker and other members of the panel.

All questions are usually answered before a conference ends. However, this was not possible at the conference on practice growth in Washington D.C. last October. In coming months we will publish these and other questions raised at conferences, together with some responses by the panelists, AICPA MAP committee members and editorial advisers to the *Practicing CPA*. Here is one question and a response by Ronald L. Frandsen of Brigham City, Utah, a speaker at the practice growth conference.

**Question:** How do you engage someone in conversation that will introduce a practice development opportunity?

**Frandsen:** I think the easiest way is to simply ask questions. Begin with a broad open-ended question that elicits information. You can usually get a feel for prospects' attitudes by the responses you receive.

For example, you might ask, "How did the new tax act affect your business?" Or you might say, "My profession is accountancy and I am very interested in accounting systems. How do you handle your payroll, receivables or whatever?"

When you are able to generate a discussion on accounting or tax, people will reciprocate by asking questions because they are interested in hearing the viewpoints of someone they regard as an expert on these matters.

As you show understanding of their problems, they will tell more about their operations. This gives you an opening to



show your capabilities; and because the purchase of professional services is usually based on confidence and mutual respect between the parties, you are in a

good position to obtain a new client.

Just ask open-ended questions, have empathy and demonstrate your competence. It's really a very natural process.

## HUMAN RELATIONS AS AN ACCOUNTING SKILL

April 1983

*Success as a CPA may depend upon human-relations skills as much as upon the skills which the profession certifies. While we all know how to be warm, we may benefit by demonstrating more warmth in our relationships with clients.*

Powerful selection and entry qualifications, plus continuing education help ensure that practicing CPAs are uniformly competent in a technical sense. However, these qualifications are not the sole determinants of success. Every CPA is presumed able to do the job. Accounting skills serve primarily to distinguish the CPA from the non-CPA, not from other CPAs. Therefore, a major distinction among CPAs may be the extra talents possessed and provided to clients. Foremost among these and a key factor in success is likely to be skill in human relations.

Successful consultants know that clients' needs are not always of a purely technical nature. The client wants personal and helpful advice, although not from a lay person who may overlook a relevant technical problem. CPAs, as much as any professionals engaged in consulting, are in a position to provide help on many fronts. The keys to success in the CPA/client relationship may lie in providing answers to unspoken questions and solutions to unstated problems, drawing upon an expertise beyond what the CPA was engaged to provide. In fact, clients' decisions about following your advice or retaining your services may depend upon factors in addition to your professional qualifications. How well you get along with your clients will play an important part in their decisions.

Perhaps an anecdote is in order to explain this point. An engineer, early in his career, would regularly be called upon for advice on matters in which he was considered by training to be expert. Armed with ample data, documentation and justification for recommendations, he would present cases for particular courses of action at the company. Just as regularly, the advice would be questioned and often not accepted.

It took about two years of such experiences before he realized that it was not the technical quality of the analyses and presentations that was being questioned. Rather, it was the individual, not the work, that was under review. Until he had proved himself in the organization, neither he nor the analyses could gain acceptance. He later proved the point by withholding data supporting a recommendation, stating that as he was the expert, his analyses and

advice should be beyond question. And, surprise, they were.

In that case acceptance, not expertise, was the key to success. This is perhaps even more true in the relationship of a client to a CPA or other professional. Where the client is a non-expert, acceptance of your accounting skills may only follow personal acceptance and this will depend on your demonstrating genuine concern for the client's problems. A first step in this direction is to be warm toward your client and the professional relationship.

It is difficult to define exactly what warm means but most people know when they experience warmth and respond very strongly. Some examples may illustrate this point.

MBAs surveyed about the business-school courses which were most useful in their careers listed accounting as important but not most important. Top managers named in order of rank behavioral sciences, policy and accounting. Middle managers named behavioral science, production, policy and accounting.

Recently, we asked a group of about 25 auditors to provide detailed comments about a person who had been only briefly described to them. Half of the group was told, among other things, that the person was warm, while the other half was told the individual was cold. There were no other differences in the description, yet the two groups described what appeared to be two entirely different people.

The different descriptions related to how warm or cold the auditors perceived the described individual to be. Compared to cold people, warm individuals were described as better skilled, sharper, happier, honest, self-confident, interesting, sociable, moral, pleasant, friendly, considerate and kind. Warm individuals were even described as better dressed. It is very clear that being perceived as a warm person leads to many additional and positive perceptions.

If attempts at warmth seem off base from the bottom-line concern of managing assets, consider this: in a survey of Fortune 500 executives, human assets were determined to account for about half and often more of the total real worth of the corporations. The people you manage and the clients you attend to in your work as a CPA are equally important to your firms and your careers.

—by Randall G. Sleeth and John B. Sperry  
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## PERSONAL COMMUNICATION—ESSENTIAL IN PRACTICE

April 1983

In communication among people, ideas are encoded and transmitted, received and decoded. Or, expressed differently, ideas are put into words and directed to other people who receive and interpret them. The weakest links in the communication chain are the encoding and decoding elements, because each person has a different code book. Often the interpretation of an idea is not the same as the original concept.

Expressing yourself in a way that gets your meaning across to another person is obviously important. As a practitioner, keep in mind that you will never be paid a fee unless clients first pay attention to you. If your clients don't perceive any value in what you are offering, they won't pay attention. Two vitally important communication principles to remember are (1) empathy—the identification and understanding of another's viewpoint, and (2) responsibility—the extent to which you will go to understand and be understood.

Practicing the art of empathy with other people is not just a virtue, it can be useful in client relationships and in motivating staff. There are three stages to this process:

- ☐ Perceive each individual's (client, prospect, spouse, child, etc.) viewpoint or value system.
- ☐ Grant others the right to think or feel differently from how you think and feel.
- ☐ Identify with other people's values, viewpoints and desires.

Each person's perspective is unique, and using empathy makes it easier to deal with others more effectively. Put yourself in other people's shoes, with their individual backgrounds, conditioning and experiences to see how you would view a given situation.

As senders or receivers of messages, we each have the primary responsibility for being understood and for understanding. If we are not understood, we should take the position that we have not expressed ourselves clearly. If we don't understand, we should use our initiative to seek better, fuller understanding. We need to go further than meeting the other person halfway when communicating. We should read the nonverbal signs others are giving, practice empathy, ask questions, initiate feedback and be willing to take the extra steps. To do less is to invite a communication gap.

Put the responsibility to comprehend on yourself. Ask open-ended questions that can't be answered with a single word. For example, "How do you see the difference between . . . ?" or "What are some of

**Nonverbal Communication**

Body positions, facial expressions and gestures are indications of mental states. Folded arms indicate probable defensiveness or resistance—so does leaning away. Hands on hips indicate possible aggressiveness. A manner of walking can indicate authority, timidity, etc. Facial expressions reveal possible moods and emotional sets. In total, nonverbal signs communicate even more expressively than the spoken word and understanding these messages is vital to good communication.

Listening is the receipt of information. Hearing is deeper. It is understanding—grasping the innuendos, subtleties, emotions, etc. There are some techniques that can help us to hear better. Begin with genuineness from the standpoint of both politeness and profitability. Be sincere in terms of both wanting to know and understand what your employee, spouse, child or client is meaning, where they are coming from and where they are going because, if you do, you'll be able to deal with them more effectively.

Physical stillness and mental stillness are recommended. It is not possible to turn pages, to be moving, to be thinking about other things while another person is speaking and really grasp meaning. We need to read the eyes, facial expressions and body language to understand what someone is saying. The only way we can do that is to still our own minds and bodies.

A movement toward the person speaking is also recommended. It might be one inch, six inches or moving from a rather relaxed body position to a forward leaning posture with our elbows on our knees. It says "Well, that's really interesting. Tell me more about that." The intensity and interest are clearly greater. Not only do you tend to become more intent in terms of what someone has to say, but the other person begins to perceive your greater interest in what he or she is saying.

Nodding the head up and down can help too. It says "Tell me more, go on. I am receiving your messages." It does not necessarily say "I agree or disagree" but it helps understanding by continuing the conversation. Remember, the more the other person talks (about almost anything, although preferably the specific topic at hand), the more you learn and the better prepared you are to deal effectively with that person.

the ways . . . ?” Then reserve comments and judgments. Just absorb the reader’s message and initiate feedback to check on your own receiving ability.

Silence is golden when receiving messages. It enables you to hear. Stillness is important, too—both physical and mental stillness. You can also make it easier for others to address you if you devote yourself exclusively to them for a time and concentrate on their messages and meanings. Get closer if you can. Remember, a desk creates a barrier because you negotiate across it. Maintain eye contact, watch the movements of others and use nods and gestures to let them know that you are receiving their messages.

When sending messages, do so in a manner that persuades the receiver that your ideas are important, meaningful, entertaining, etc. Deliver enough value so that the receiver pays attention. Communication goals and objectives need to be clearly stated and referred to periodically to allow receivers to consistently confirm or deny the conversation’s purpose, direction and destination. Assumptions are sometimes necessary, but frequently they are traps. Assume as little as possible.

Use words and phrases that are familiar to the receivers. This will increase the likelihood of the message being comprehended. Other ideas are to

paraphrase a message—restate it in a way that clarifies and confirms or denies previous statements. And ask the receiver to return the meaning of the message to you. This is a nearly foolproof confirming technique.

Perhaps the most effective ingredient in the communication process is trust. There must be an area in which two parties can reassure each other of credibility and trustworthiness. While presenting oneself as open and straightforward is not always the most useful approach in all areas, it is the most important attitude in a close personal relationship. If an individual suspects that another person will ridicule or reject any strong feelings that are expressed or will reveal sensitive ones to third parties, these feelings will never be stated and a communication gap will result. Trust has to be earned, developed and maintained.

—by Mike McCaffrey

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*The above thoughts are abstracted from the draft of a forthcoming book, Personal Marketing Strategies, by Mr. McCaffrey.*

## MINING THE GOLD IN YOUR OWN BACKYARD

April 1980

*Several recent articles have pointed out the excellent growth prospects for CPA firms in expanding services to present clients. Here are a few ideas for tapping some of that potential by becoming more client-centered in communications with clients.*

There is a tendency for CPAs to spend more time on their most critical clients, just because they are vocal, than on more important clients who find less fault with their firms. This is a pity, because with satisfied clients, you have easy access to the right people and the right information to develop additional services which can become the primary source of your firm’s profitable growth.

By focusing on providing additional services (over and above audit and tax services), you can enhance the performance of your clients through the help you give in improving planning and decision-making procedures to lessen the risk of their being wrong. And, benefits can also accrue to your firm in the form of an improved image, additional referrals from enthusiastic clients, better client retention and greater staff satisfaction and development.

In many firms, practice development is aimed solely at obtaining more clients. However, this can result in lost opportunities with present cli-

ents where it is often possible to increase chargeable hours (up to 40 percent) without adding more staff or spending more money. The key to increasing your business with present clients is to first determine their needs and then to let them know you are willing and able to serve them.

Sometimes opportunities are lost because people don’t have the training to recognize clients’ needs for additional services, or insufficient or improper use is made of the management letter. Attitudes, such as “clients will contact me when they need me,” or “if I sell the work, I’ll have to manage it and I’m too busy already,” are other reasons why services to present clients are not expanded.

The formula for profitable internal growth starts from an advocative orientation. The CPA should mentally sit on the client’s side of the table, recognize the client’s needs, communicate in the client’s language, help the client in what he wants to do and, importantly, make recommendations that will result in improved performance. Here are some hints on choosing the right tools to achieve this:

- ☐ Map out a strategy for the initial meeting. People will react according to the tone you set, so be positive. Your expanded-services

relationship is often made or broken at this point.

- ☐ Always exceed clients' expectations on the first engagement. Let clients know they are getting something for their money.
- ☐ Have meetings with clients to make sure they are satisfied and that your results are visible.
- ☐ Identify each client's important needs and tailor programs specifically for each one.
- ☐ Discuss clients' needs on a timely basis, e.g., set up an end-of-engagement discussion.
- ☐ Respond promptly to inquiries and make sure that partners and staff people with a variety of skills are introduced to clients. You can generate client inquiries through the firm's mailing program, by conducting seminars and by maintaining year-round contact with clients.

#### Using your management letter as a new-business tool

The management letter can be an extremely positive factor in the accountant/client relationship if it is written from the client's point of view. This is not usually the case. Most letters are written from the CPA's perspective, using standard accounting terminology and, as a result, sometimes fail to motivate the client into implementing the CPA's recommendations. The following guidelines might be helpful in turning your management letter into a new-business tool:

- ☐ Decide what facts you want to find out about the client while planning the engagement.

- ☐ Gather the data and determine what this information means to the client. Draw conclusions from the client's perspective and specify benefits in terms of improved performance, reduced costs and better decision making, etc.
- ☐ Develop a checklist or build need-finding questions into the engagement plan to achieve goals. You will have to determine the key questions to be asked and of whom.
- ☐ Make the management letter client-centered by
  - (1) Avoiding the use of accountants' terminology wherever possible.
  - (2) Avoiding the use of words that make the client feel inadequate or that he is being reprimanded.
  - (3) Repositioning the disclaimer. (Put it on the last page.)
  - (4) Stressing the benefits to be derived from implementing the recommendations, rather than focusing on reasons such as compliance with new laws or regulations.

Other detailed suggestions for projecting a positive, helpful tone in written communications can be found in the article, "Improving Client Communications," in the January 1978 issue. As it says there, written communications are often the only tangible product of a CPA's work that clients receive. This being so, it might be worthwhile to fashion your management letters into tools that will help you mine the gold in your own backyard.

—by Richard A. Connor, Jr.  
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## LEARNING TO LISTEN

December 1984

Few people have thought about learning how to become a good listener. We all get distracted when someone is talking, jump ahead in our minds to what we want to say next, and later blame the speaker for not getting the message across.

Good listening is an active, complex process that takes knowledge of a few basic tenets and lots of practice. In both personal and professional relationships, it pays to sharpen listening skills.

Dr. Chester L. Karrass, director of the Santa Monica, California, Center for Effective Negotiating, offers several reasons why we don't listen as well as we should. For example, we

- ☐ Often have a lot on our minds and it's not easy to switch gears quickly to fully absorb and participate in what is being said to us.

- ☐ Have adopted the habit of talking and interrupting when the other party is speaking.
- ☐ Are anxious to rebut what the other person has said, and if we do not do so readily, we are afraid that we may forget to make our point.
- ☐ Allow ourselves to be easily distracted by the setting or environment in which the meeting takes place.
- ☐ Jump to conclusions before all the evidence has been presented or is available.
- ☐ Discount or write off some statements because we don't place importance on the party who is presenting them.
- ☐ Tend to discard information that we don't like, or that isn't what we want to hear.

Virtually all human beings must work to improve their listening skills. Because we are able to think and process thoughts four to five times faster than the normal speaking rate, it is easy to let our minds race ahead of the speaker and not focus on what is being said. The faster our ability to process information, the greater our potential for poor listening habits. Good listeners, on the other hand, can use this lag time to make mental summaries of information presented and notes of ideas to pursue later without losing focus on the conversation.

Facial expression and eye contact are two of the most important visual clues as to approval or disapproval and interest or disinterest in what is being said. Keep in mind that even if you look directly at someone, your facial expression may still indicate a negative reaction. From clues such as a smile and a head nod in combination with direct eye contact, we infer support, confirmation, and agreement.

Here is a questionnaire developed by Dr. Richard C. Cupka of Purdue University that you can use to evaluate your own listening habits.

When engaged in conversation, do you

- ☐ Give the other party a chance to talk?
- ☐ Interrupt while someone is making a point?
- ☐ Look at the speaker while he or she is speaking?
- ☐ Impart the feeling that your time is being wasted?
- ☐ Constantly fidget with a pencil or paper?
- ☐ Smile at the person talking to you?
- ☐ Ever get the speaker off track or off the subject?

## THE ACCOUNTANT AS DIAGNOSTICIAN

Would you like to be confident that each time you made a presentation to a prospective client, you control the meeting? You can be in control if you learn to ask the right questions at the right time. The interview process should occupy most of the meeting time, and the prospective client should do most of the talking. More often, though, people spend more time expounding on what they have done for others. This is a mistake. Prospective clients are primarily interested in what you can do for them.

When I conduct training seminars on selling and personal marketing skills for accountants and other professionals, I suggest they draw an analogy to the doctor-patient relationship when considering the interview phase of a presentation. Physicians spend most of their time examining patients and asking questions. They spend little time in writing out prescriptions, and in explaining the cures they have effected. They ask questions because it is necessary for their diagnoses. Equally important, they condition their patients to accept both the diagnosis and the prescription. Therefore, only by asking the

- ☐ Stifle new suggestions, or are you open to them?
- ☐ Anticipate what the other person will say next?
- ☐ Put the other person on the defensive when you are asked a question?
- ☐ Ask questions that indicate that you have not been listening?
- ☐ Try to outstare the speaker?
- ☐ Overdo your show of attention by nodding too much or saying yes to everything?
- ☐ Insert humorous remarks when the other person is being serious?
- ☐ Frequently sneak looks at your watch or the clock while listening?

On becoming an effective listener, you may find that you gain information from new sources that previously would have been missed due to poor listening. And even if you don't agree with other people, they will still feel that you listened to them openly.

Developing good listening habits is the first step to becoming a better communicator. With practice, this can improve our interpersonal skills and human relations capabilities and enhance our personal and professional lives. Just run through the questionnaire. See how many areas you think you need to improve. The sooner we all start listening effectively, the better. ☒

—by Jeffrey P. Davidson, CMC  
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December 1988

right questions can you diagnose the prospective client's specific situation and needs, and effectively present your strengths.

By having both the ability and the willingness to ask questions, you will acquire a wealth of useful data. You will show your interest, draw the buyer out, and develop a working relationship. In addition, if you do it right, you will gain control, credibility, and perceived equality.

- ☐ **Control.** When you ask someone a question, you are in effect dictating who will speak, on what subject, and when. If you are concerned about the length of the response, you can interrupt and ask another question. You could, for example, say, You just said something that triggered a thought, and ask another question. You maintain control.
- ☐ **Credibility.** When you ask incisive, perceptive questions, the other party soon realizes that you know the subject and that you are thorough. You gain credibility. There is no need to tout your abilities.

- **Perceived equality.** As a professional in your own field of expertise, you have a considerable amount of knowledge, information, and data on which to draw. In most situations, you know more about the topic at hand than the majority of people with whom you are speaking.

You are due equal standing with potential buyers. Give the buyer credit for knowing his or her business, but give yourself credit, also, for knowing yours. What needs to be established is a sense of equality.

#### The art of asking questions

To clear the way for an effective interview, first ask prospective clients if they mind if you ask questions. Most will probably say, Of course not, go ahead. By getting permission to probe, you won't appear pushy and will most often find that people tell you their needs. Specific answers and insights will follow as long as you maintain an empathetic attitude.

Start the interview with general, open-ended questions that elicit discussion. Don't ask questions that can be answered with only one word. You could

for example, use the best/worst method. First, ask a series of questions to find out what the other party likes best about a service or product. Then find out what they don't like about it.

One of the greatest strengths you have going for you is being able to walk away from potential clients if you can't provide a service that meets their needs. This is not only an ethical necessity, but also a marketing asset—one that gives credibility and authority to your presentation.

Being able to walk away is quite different from displaying your services like merchandise in a bazaar. That, in effect, says, Here's what I've got. See anything you need?

The last point is absolutely central to selling your services. The objective of the interview is *not* to sell. It is to find out what the client or potential client needs or wants. If you arrive at that point and respond effectively, you are likely to close the deal. □

— by **Mike McCaffrey**, P.O. Box 4101, Laguna Beach, California 92652, Tel. (714) 497-6616

## THE ROYAL ROAD TO SELF-CONFIDENCE

April 1986

"You can't imagine the good things happening in other areas of my life too." This was one of the enthusiastic comments of a young woman at Rollins College's Crummer Graduate School of Business in Winter Park, Florida, when describing the results of her involvement in the Toastmasters program at the school.

If you have ever interviewed young people who were unable to express their thoughts clearly during *that* process, you can imagine the difficulty many people have in making public presentations. Indeed, before her involvement in the communication program, the young woman just mentioned was petrified at the thought of speaking before more than two or three people. As a matter of fact, even many interviewers are inadequate in this regard.

I became interested in public speaking forty years ago and, as a result, have spent a great deal of my personal time since then in enhancing my skills. When I realized what the experience did for my own self-confidence, I became interested in helping young people, especially those entering the accounting profession, to further their public speaking and oral communication skills.

A couple of years ago, Dr. Henry Anderson, chairman of the accounting department at the University of Central Florida, and I started a Toastmasters Club at that university. Firm interviewers in the area now comment on the difference between graduates who have been involved in the Toastmasters process and those who have not. Young people who

want to do well will do what is needed to add to their value and leadership qualities. Improving their oral presentation and public-speaking skills certainly helps in this regard.

In the fall of 1984, I was retained as an adjunct instructor at Crummer to assist in the management simulation class, specifically in the areas of oral presentation and communication. We found that students participating in the class were much more proficient in presenting their annual reports at the end of the program than students had ever been before. This success prompted two professors, Dr. Martin Schatz and Dr. Frank Dasse, to suggest we start a Toastmasters Club at the school, which we did with the assistance of two members of our firm, John Barry and Kimberly Stirling.

The young woman who was so excited about the program's effects is a good example of the benefits of learning public-speaking skills. Dale Carnegie, one of the geni of public speaking, said a long time ago that public speaking is a royal road to self-confidence. I have found this to be true, both from my own experience and through observing others.

Promoting and teaching public speaking skills to young people does not always yield immediate results. I strongly recommend, however, that practitioners who are interested in helping to develop leaders for our profession—a long-range project—help start Toastmasters Clubs in local universities and colleges. These efforts not only develop leaders, they also help young people find dimensions in their lives that they would not otherwise have found.

There is a correlation between personal success and the ability to communicate. In fact, I know of no leaders in any profession or calling who cannot speak effectively before groups of people. It is tremendously

exciting for me to be engaged in an activity that offers so much to young men and women just starting their professional careers. ☒

—by *Arnold Howell, CPA*  
*Orlando, Florida*

## Section 7

# MARKETING AND SELLING SERVICES

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## MARKETING AS A PROBLEM-SOLVING TECHNIQUE

April 1985

Nothing stimulates interest in marketing more than competition—and there is no shortage of that in the accounting profession these days. Because the problem of confronting the marketing challenge is so new to professionals, however, there is no familiar, structured approach to meeting it.

Some firms scramble to run a series of 30-second radio advertisements without first obtaining adequate knowledge of the stations' audiences. Sometimes there is little evidence that these listeners are likely to be persuaded to utilize a firm's services, and still less that they would fit into the firm's long-range practice development goals.

Other firms have prepared lavish brochures that languish in storerooms because they are considered too expensive to give to "just anybody." Sometimes they stay there because they are so heavy that the cost of mailing them is too great.

Lacking specific direction, it is almost impossible to evaluate the choice of marketing media, the audience to be reached, the substance of the message or the cost of it all in relation to the expected results. Nevertheless, while overt promotion of services is a new undertaking for most accountants, problem-solving is not. To see the similarities, just identify a problem or opportunity facing your practice today and take it through the marketing process using the worksheets that are exhibited in this article.

To begin a marketing program, the partners should first write a one-page narrative describing the firm—type of practice, philosophy of client service, role in the community, etc. (The exhibit "Firm Profile" will be helpful in collecting the needed data.) You'll find that the resulting fact sheet is useful in a variety of situations. It can accompany the handouts at firm seminars, be mailed with responses to inquiries and serve as background for introductions to audiences.

Next, identify three marketing objectives for three consecutive planning periods ending at 12-, 36- and 60-month intervals, taking into consideration the short-term objectives that must be accomplished before longer-term ones will come to fruition. You might be interested, for example, in certain-size retail companies or in manufacturers in a growth industry where you already have extensive experience. Perhaps you would like to become the premier firm in your service area for advising clients on the computerization of their financial systems, or maybe you have identified a growing market segment that will need more of particular types of accounting services in coming years.

These objectives can start out as theories and, through research (much of which can be conducted

### Firm Profile

Date of founding: \_\_\_\_\_

Name(s) of founder(s): \_\_\_\_\_

Location of first office: \_\_\_\_\_

Rate of growth: \_\_\_\_\_

Types of services performed: \_\_\_\_\_

Predominant client groups  
(market segments) served: \_\_\_\_\_

Clients prominent in  
community or industry: \_\_\_\_\_

Statistics related to marketing effort:  
(For quarterly control check, show figures by  
quarter.)

	198—	198—	Change in %
Total revenue	\$ _____	\$ _____	_____
Total potential billable hours	_____	_____	_____
Total actual billable hours	_____	_____	_____
Total cost of doing business	\$ _____	\$ _____	_____
Total cost of marketing program	\$ _____	\$ _____	_____
Revenue breakdown by type of service:			
<input type="checkbox"/> taxes	\$ _____	\$ _____	_____
<input type="checkbox"/> management advisory services	\$ _____	\$ _____	_____
<input type="checkbox"/> auditing	\$ _____	\$ _____	_____
<input type="checkbox"/> other	\$ _____	\$ _____	_____
Revenue breakdown by type of client (market segment):			
<input type="checkbox"/> real estate	\$ _____	\$ _____	_____
<input type="checkbox"/> construction contractors	\$ _____	\$ _____	_____
<input type="checkbox"/> auto dealers	\$ _____	\$ _____	_____
<input type="checkbox"/> others	\$ _____	\$ _____	_____

Date revised \_\_\_\_\_

by paraprofessional and support staff), develop substance as real possibilities. As soon as your objectives are clear, make sure that all partners and staff

<b>Marketing Media Matrix</b>					
<u>Prospects</u>	<u>Media</u>				
	<i>Print</i>	<i>Seminars</i>	<i>Direct mail</i>	<i>Display opportunities</i>	<i>Causes</i>
ABC Company	<i>Construction Quarterly</i>			Builders' convention	Housing for elderly
Homeowners under 40	Sunday "Home" section	"Tax Planning for Homeowners"		Spring home show	

know where the firm is headed and the role they can play in getting it there. (A method of rewarding everyone who makes a meaningful contribution to that growth should be part of the marketing plan.)

Now it is time to examine the objectives you have articulated and determine their implications. For example, which market segments will you be targeting in your promotional efforts? Will it be elderly homeowners or chief executive officers? Or perhaps it will be women entrepreneurs or middle managers with prospects of becoming chief executive officers. You must find out who can influence these people—who will be referral sources—and decide whether the groups are large and prosperous enough to merit the effort and expense of a marketing campaign.

Then you must decide if it is possible to identify individual prospects and their specific characteristics within each segment, and if they can be reached with the marketing tools you think are appropriate—tools such as publicity campaigns, brochures, trade journal advertising and seminars. The final decision concerns whether or not the estimated fee revenue justifies special handling of the group as a separate prospect category.

At this stage you are ready to identify the specific service requirements of each market segment. You

should also note any internal changes your firm might need, such as more clerical support, more partner time spent out of town or update courses for staff.

One advantage to identifying market segments in the business sector is that the U.S. government has already assigned a number to almost every type of business in the country. A directory of this Standard Industrial Classification (SIC) numbering system is available from the General Services Administration and can help you in categorizing markets. From the SIC number you can identify directories published by chambers of commerce, state business and industry associations and trade associations. Then, compile a list of names and supporting data.

Such business-related lists should be cross-indexed with social and civic association membership lists to assist the firm in assigning memberships and networking activities. Once in place, this marketing information system will provide immediate access to names and addresses for seminar invitations and newsletter mailings, as well as information for regular client-action meetings.

Keep in mind as you research these lists that you are looking for the "coincidence of interest" between you and the people you want to serve; a connection

<b>Segmenting the Markets</b>					
<u>Market segments</u>	<u>Accounting services</u>				
	<i>Audits</i>	<i>Financial planning</i>	<i>Tax return preparation</i>	<i>MAS</i>	<i>Litigation support</i>
Entrepreneurs (SIC #)					
Condominium developers (SIC #)					
Widows over 50					
Chemical manufacturers (SIC #)					

that will set you apart, in their minds, from other firms. Potential consumers of professional services are looking for advisers, people familiar with their problems. The comfortable feeling of easy communication cannot be undervalued in such a relationship. Only through a trusting, mutually respectful, professional relationship can the most effective service be delivered. If you can identify at the outset of your marketing program some common interests or experiences with prospects, the chances of your establishing an ongoing professional relationship will be much stronger.

After you have determined where you are going and why, it is time to decide how. So, examine each market segment and assign your researcher the task of identifying the most effective media for reaching prospects within these segments. For example, find out which periodicals they tend to read and which television shows they watch. What specific service clubs and community groups are they active in, and do they respond to visual communications? The answers will help you make decisions on what would be the most effective devices for achieving your marketing objectives.

The researcher may even find that you can make the best impression on certain targeted segments through association with noncontroversial causes, such as joining the community group trying to pre-

vent the demise of the string quartet that performs for the Lions Club every Christmas, or providing financial help for disabled or minority individuals pursuing an accounting education.

Once you decide on the types of media you will employ to accomplish your marketing objectives, you can schedule various activities, make assignments for implementation and construct a system of evaluative checkpoints. This structured approach gives you a tool to help isolate and evaluate opportunities, fine-tune services and delivery systems and justify time and expense for marketing activities. More than that, taking such an approach helps you break down the challenge of marketing into a series of solvable problems.

Think of your marketing program as the longest-running assignment you've ever come across, with the stingiest but most important client you've ever had—your own firm. The reward for your efforts is that the fees will be greater than those generated by any other client. They will be multiplied by each new client and project that you obtain as a result of your marketing program. ☒

—by Marticia Madory

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## CLIENT-CENTERED MARKETING: A SURVIVAL STRATEGY

April 1981

Until recently, local accounting firms served their clients in a dynamic marketing environment. As clients expanded, accounting firms grew also in order to serve their clients' increasing needs. Competition, if any, was sporadic and usually from firms seeking to enter new markets.

In the present environment, local firms may face any one of the following challenges:

- ☐ Many practice market areas are experiencing slower growth. Some industries, particularly those connected with autos, steel and construction are depressed and show little potential for recovery soon.
- ☐ Clients are becoming more sensitive to increasing fees. They tend to resist those which are not seen as producing greater value and payoff. They expect more than an audit—they want counsel and interpretation of the data.
- ☐ Key clients are being targeted for attention by other firms. Client retention is no longer assured by traditional services and relationships. Competing firms have active programs for developing relationships with decision makers in target organizations.

- ☐ Competition is increasing and taking many different forms. In addition to more aggressive marketing efforts by some CPA firms, various other professional-service organizations are also competing for clients.
- ☐ Owners' net incomes are not keeping pace with inflation. Although gross fee revenues are increasing, net incomes are squeezed by rising professional and support costs and regulatory expenses.

The impact of these challenges is often compounded by conventional operating practices which, in the past, served the local firm well.

Traditionally, many firms have had a reactive, professional/technical orientation rather than a client-centered, advocacy one. Clients have largely identified their own needs and told the CPA about them. Frequently, a client's unmet needs are neglected because the CPA firm is preoccupied with obtaining new clients—equating marketing almost entirely with that goal. This has often resulted in clients being accepted who will never offer opportunities for additional services. Also, unfortunately, the practice of accepting virtually any client often leads to recurring write-down and collection problems.

Practice development (marketing) is typically the responsibility of principals who are too busy with professional and administrative tasks to have the time to develop new business with key clients. Neglecting to involve all professional personnel in some aspect of marketing the firm's services to clients results in many lost opportunities.

In the future, clients will increasingly expect more client-centered services. Local firms that have undertaken a specialization program and are letting clients know of their competence in specific areas through a client-centered marketing program, are likely to find this the solution to the more aggressive tactics of other firms.

#### A program for controlled, profitable growth

Client-centered marketing begins with the philosophy that a successful practice can be achieved by satisfying the needs of targeted clients. It is a directed-communications process to target key clients and referral sources in order to establish and enhance relationships with all who might be influential in retaining your services. The firm's philosophy and commitment to the program should be written down and communicated to all staff. Here are some more steps to take in setting up a program:

- ☐ *Assess the skills and knowledge in your firm*—Start with your professional staff. Determine their skills and attitudes and the image they project. Then, assess what client-centered information is available. What's known of clients' industries? Are the facts current? What services are in biggest demand?

- ☐ *Select your targets for analysis, planning and action*—Begin with key clients in target markets that have growth potential and minimal competition. Your objective is to engage in market and service specialization activities and be recognized for your skills.
- ☐ *Assign responsibilities and provide needed orientation and training*—Appoint team captains for each target selected and assign each member of the professional staff to one or more of the target-market teams. Allot responsibilities for membership in various trade and civic associations.
- ☐ *Develop and disseminate information for each target*—Create files on existing and high-potential clients. Place clippings, articles and other appropriate data in the files.
- ☐ *Create a set of marketing tools to support your program*—Consider the use of aids such as brochures, sample management letters, etc. Provide training in the preparation of proposals and management letters.

The uncertainties and difficulties of the period ahead need not spell the doom of local firms. Those wishing to survive and prosper might well find that by being more client-centered they will be able to continue satisfying their clients' needs.

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## MARKETING AND PRACTICE DEVELOPMENT

July 1980

*A session that proved to be extremely popular with participants at the recent AICPA private companies practice section conference was one involving panel and roundtable discussions on the marketing aspects of practice development. This is obviously a new field for many practitioners; but as Mahlon Rubin, the moderator, pointed out, marketing is a subject that is being increasingly emphasized over the more traditional topics of partnerships, compensation and people management, etc., at management of an accounting practice meetings and conferences. With Mr. Rubin on the panel were Arthur W. Hoffman, Sidney F. Jarrow and A. Marvin Strait. Here are some of their comments.*

One problem in developing a marketing approach to practice development is in trying to change people's attitudes. Partners find it difficult to go from a position of doing nothing in marketing (particularly in advertising) to one of doing some-

thing. One of the reasons for this is peer pressure. If other CPA firms in your area are not engaged in any form of advertising, you will likely find resistance to it in your firm.

Successful marketing requires planning and commitment. You must make time available to develop and follow a marketing program and be willing to spend money. Don't procrastinate. You can't sit around waiting for the program to work. It won't unless you participate in it.

Only a small percentage of the public are potential clients, and a CPA firm's best prospects for increased business are with its present clients. So, decide what your marketing objectives are and how you are going to achieve them.

There are many ways to market your firm's services, and for the best results you should

- ☐ Consult advertising and marketing experts. (You can select them on the basis of what they have done for banks and other financial

institutions if they lack experience in advertising for CPA firms).

- ☐ Direct the effort toward selling the firm, not individuals.
- ☐ Decide on the frequency of advertising.
- ☐ Establish parameters so that you can measure results.
- ☐ Assign responsibility.
- ☐ Set target dates and adhere to them.
- ☐ Put your objectives in writing. (Plan your plan.)
- ☐ Constantly evaluate the program. (You can do this from the responses and feedback.)
- ☐ Be positive about the plan.

You must be comfortable with what you are doing and be prepared to make mistakes. However, don't persist with a program that is plainly wrong for the firm. Also, keep involved partners and staff informed. Once their initial resistance is overcome, people want to become part of the marketing effort. And who knows? They may even have some good ideas.

Marketing is not just advertising. It encompasses all activities involved in moving goods or services from producer to consumer. For a CPA firm, a marketing program will also involve public and community relations in order to build the firm's image in the area. The key to doing this is to determine what business people look for when selecting a CPA firm, and then to make an effort to fill the bill. Here are a few things to keep in mind:

- ☐ *Be competitive.* Even small firms can develop highly specialized services which can both make the firm known and be very profitable.

- ☐ *Watch your appearance.* People want to do business with those who look successful. Your firm's office, equipment, stationery, logo, etc., and the way personnel dress should all convey professionalism.
- ☐ *Become involved in community affairs.* However, only become involved in activities that interest you. Select the activity carefully—only about 15 percent of the people in a community need a CPA. Membership in trade associations, chambers of commerce, rotary clubs, etc. can be good for your image and your business.
- ☐ *Have a strong client orientation.* Try to think as the client does. Ask your staff what they think is the major problem faced by a client. Focus on clients' problems. Have lunch with clients regularly and pick up the tab. Send them a newsletter. This keeps your firm name before them on a regular basis, which is especially valuable during periods in which you are not actually performing services for them. Put on seminars for clients in the same industry and allow sufficient time for socializing. Make a point of visiting clients' offices periodically, of learning about their businesses and keeping up with developments. Always respond promptly to clients' inquiries, and let them know you are interested in them.

Remember, good public relations is good marketing. And good marketing can only be good for practice development.

## MARKETING PROFESSIONAL ACCOUNTING SERVICES

October 1980

A new environment is altering the ways CPA firms market their services. For example, firms are changing the ways they obtain clients and price their services, and they now have greater interest in advertising and public relations activities—holding seminars, giving speeches, writing articles and the like. These are trends which are likely to get stronger in coming years.

A presentation by Ray S. Hibbs, CPA, of Minneapolis, at the AICPA's recent management of an accounting practice conference in Las Vegas, dealt with marketing professional accounting services in this new environment. Here are some suggestions based on comments at that session.

Two prerequisites are needed to start a marketing program. Appoint somebody who has clout in the firm to be in charge of it—someone who can get things done. Second, find out how part-

ners and staff see the firm and how they think clients and other people see it. You often discover how partners and staff members perceive the firm by asking them

- ☐ How effective they think the firm has been in its practice development activities during the past few years, and how they think the business community views the firm.
- ☐ To rate the firm's relationships with centers of influence such as banks, law firms and insurance and real estate agents.
- ☐ How well they think the firm serves different types of clients, and how it compares with others in the area on overall service and in attracting new business clients.
- ☐ What they think is the primary reason for the firm losing a client, and where they be-

lieve the firm's greatest competition will come from during the next five years.

You can also question other groups for their opinions of the firm. Former clients, local press people, professors, students, spouses, etc., will all be able to give you valuable insights into how the firm is perceived in the community. Meetings with former clients can be especially enlightening. You may learn quite a bit about your practice, for example, that partners are not getting the support they should be getting from the firm.

The next step is to determine what the firm's objectives are and how it will become a leader in terms of specialties in the marketplace. To do this, you will have to

- ☐ *Define your market* for the area to be served, the desired size and types of clients, industry specialization and types of services to be offered.
- ☐ *Find out who your competitors are* and try to determine their strengths, weaknesses and strategies. Are they aggressive or passive, and do they provide past-oriented or future-oriented services?
- ☐ *Analyze clients' needs* by putting yourself in their shoes. Ask yourself what you would want if you owned a particular business.

Most of an accounting firm's services to clients are those of a historian (e.g., auditing), which makes it difficult for clients to determine the quality of a service or its value to them. This drawback can be largely overcome through use of a management letter that lets a client know that the CPA can help solve his problems.

When you have gone through the steps outlined, you are in a position to decide on specific elements of your marketing program such as the amount you intend to spend, how you will develop information on target clients and what problems you are offering to solve for clients. You must also make decisions on such things as how much research will be conducted, and how much of the marketing program will involve personal selling, public relations and advertising.

Although an advertising and public relations campaign is a new area for most CPA firms, you will find that it can be organized just like any other program. You must establish objectives, prepare a budget, select competent counsel and measure results.

When selecting an agency, choose one that not only has the expertise you need, but which will value you as a client. The size of the agency and its growth rate should be considered. You will want to know about the agency's experience in marketing intangibles and about its capabilities in copy writing, art, printing, media planning and buying, and research. Personal rapport is another important element in this kind of relationship. Finally, don't forget to check such items as the billing arrangements and what the commissions, fees and other charges will be.

Here are a few ideas regarding specific communication programs:

- ☐ Distribute firm brochures and newsletters to clients, members of organizations such as chambers of commerce and to professionals such as lawyers and bankers. You can also hand out these printed materials in your reception area and at seminars and colleges.
- ☐ Favorable mention in the press will help make your firm known. You can generate publicity from your own writings and speeches, but have public relations people help you with the first drafts. Convert speeches into articles and vice versa.
- ☐ Hold seminars. These don't necessarily have to be industry-oriented sessions for technicians. You can hold seminars on a variety of management concepts for different categories of people such as managers and company presidents.

Finally, one bit of advice concerning marketing professional services that was stressed at this session is to not make the marketing program too complex. Keep it simple and attainable.

## MARKETING: INSIGHTS AND LESSONS LEARNED

November 1985

The marketing of professional services is a hot discussion topic nowadays. Marketing tools are being used by a growing number of professional service firms, and many is the practitioner who wishes the whole notion of marketing and selling would simply go away. But that's not to be.

Having recently completed a marketing guide for my busy fellow practitioners, I was led to think through what I have learned since 1969 when I be-

came a full-time consultant and introduced the notion of client-centered services marketing.

My purpose in this article is to describe three insights into what professional services marketing is really all about; identify and discuss five critical marketing mistakes which, unless avoided, can seriously impair a marketing program; and discuss a six-element marketing effectiveness model.

### Insights and lessons learned

Successful professional services marketing is dependent on the continuing process of developing client-centered relationships with high-potential clients and other people who can be helpful in meeting your marketing goals. Simply put, services marketing is relationship development.

Client-centered relationships grow out of a sincere desire to assist clients in doing better what they are in business to do. This means listening to clients and learning what it is they really want and about the problems they are hesitant—or forced—to face. Then, without making clients feel they are at fault for being in this situation, it means serving as a conduit to the resources available while coordinating the delivery of constructive service in the manner expected.

Clients don't really purchase a service, they buy your promise to create a more desirable future situation. Successful sellers of professional services recognize this fact and attempt to become temporary partners (in the client's eyes) by thinking as clients do when defining the requirements of the proposed solution and when mobilizing the resources required to create the desired future situation.

I believe that services are bought when clients feel confident that they can get along with the professional offering them and that he or she can deliver what is promised. The clients' decisions are then justified by various proposals, brochures and testimonials. The best proposal is really a confirmation letter that says to the client, here is what you want us to do, and here is what we are going to do, and when, how and for how much.

### Critical marketing mistakes

- ☐ *Defining and limiting marketing to getting new clients.* The unintended effects of this action are to (1) discourage those in the firm who wish that marketing would simply go away, and (2) neglect to use the present engagement as a major new business opportunity. Many professionals are still missing opportunities to meet the needs of a virtually "captive" market at minimum expense and risk of personal rejection.
- ☐ *Misunderstanding or refusing to examine the organizational implications and requirements for effective marketing.* Marketing services is done largely by the producers of services throughout the organization. This necessitates organization and management by a (marketing) professional who is able to communicate, train and coordinate the various marketing programs. Marketing requires time, an adequate budget, commitment and a supportive climate.
- ☐ *Neglecting to tie individual marketing efforts into the firm's appraisal system.* This leads to spo-

radic results. In professional service firms, marketing efforts must be mandatory and must be measured. Rewards or sanctions must be applied; otherwise, the activity will soon cease to occur on a regular basis.

- ☐ *Becoming obsessed with growth for growth's sake.* The unintended results of growth for growth's sake can include (1) "operation scramble" as a way of life because the volume of work and nature of the assignments lead to scheduling, staffing and engagement management problems, (2) owners' net income suffering because so much time and budget are dedicated to obtaining new clients and, finally (3), destroying the climate or culture that originally enabled the firm to obtain its good clients.
- ☐ *Attempting to be all things to all types of clients.* In this era of specialization and concentration, marketing leadership and profit are the result of being seen as "somebody special to some special bodies." Unless your firm's services are perceived as being different or better than others, you face increased price sensitivity on the part of clients and prospective clients.

### A marketing effectiveness model

This model can be described using six verbs:

*Concentrate.* The busy professional has limited time to devote to the marketing task. The goals are to focus attention on high-potential clients and markets and to develop an "insider's" understanding and reputation. Marketing effectiveness comes from identifying and doing a few marketing tasks well.

*Educate.* First educate your staff by providing training in marketing ideas, personal selling and client relations skills. Be wary of excesses and hire an expert to train your people in fundamental selling skills such as probing and closing. Then, stress application of these skills to specific client and prospective client situations.

The second step is to develop a client-centered perspective so you can talk with clients about their needs and opportunities. This means you must do a lot of listening and research. You educate clients by discussing opportunities, not by mentioning your service. Finally you tell referral sources about their importance to you and about the type of new clients you are seeking.

*Communicate.* You have four communication targets: your people, clients, targets of influence and those of opportunity. Internally, you need to communicate clearly the importance of and need for individual requirements and rewards for marketing. Your other three targets are handled by promotion and publicity—in effect, a continual conditioning program.

*Manage.* Your task is fourfold: (1) to manage the marketing effort using an anticipated action-result

schedule, and by providing training, counsel and feedback; (2) to manage your relationships with key clients and targets; (3) to manage the elements that make up your image and reputation and (4) to manage the delivery and presentation of results. It's been said that "You never have a second chance to make a favorable first impression."

**Leverage.** This is tied to the 80/20 notion that 80 percent of your results come from 20 percent of your actions and opportunities. This notion also includes identifying and exploiting niches and using referrals to pave the way for and increase the probability of developing additional relationships.

## MARKETING SERVICES TO CLIENTS

December 1984

As the environment in which local firms operate continues to change, marketing services to clients becomes increasingly important. Some of the aspects of marketing services were discussed at one of the miniconferences at the AICPA annual meeting in Atlanta.

For many practitioners, though, marketing is a new concept and one with which they are not entirely comfortable. But as Donald P. Zima, an Atlanta practitioner who moderated this session, mentioned, the most productive partners in a firm are usually those who are comfortable with what they are doing. What is needed in many cases to make marketing more acceptable is a change of partners' attitudes.

"Changing partner attitudes" was the topic of the first presentation and as the speaker, Lowell A. Baker, a Cleveland CPA, said, perhaps changing should be a verb, not an adjective. The process takes time but for local firms it is very necessary.

CPAs are seeing profound changes in

- ☐ Practice—the nature of services, staying abreast of technical pronouncements, keeping up with CPE.
- ☐ Staff—higher salaries, involvement.
- ☐ Competitors—elaborate proposals, more aggressive marketing.
- ☐ Clients—budgetary constraints, lower audit fees, waning client loyalty.
- ☐ Economy—shift from smokestack to high tech.

Generally, CPAs must learn to be more innovative if the profession and local firms are to survive. In looking at the need to change attitudes through a comparison of what was accepted in the past and what will be needed in the future, it is clear that three distinct areas will be affected—the individual CPA, the firm and the tools that are used in practice.

In the past, the typical CPA was technically oriented and specifically qualified in the areas of accounting, auditing and taxes. In the future, though,

**Assure.** Your key responsibility is to assure satisfaction with the service by all who participated in the purchasing of it and by all who use or are affected by the service. This step is frequently omitted or given insufficient attention. ☒

—by Richard A. Connor, Jr.  
Alexandria, Virginia

*Editor's note: Mr. Connor, director of marketing for Pannell Kerr Forster, is the coauthor of Marketing Your Consulting and Professional Services (John Wiley & Sons, 605 Third Avenue, New York, N.Y. 10158), from which this article is excerpted.*

the individual will need additional skills. He or she will need some expertise in such areas as business advisory services, profit planning, cash flow and operational reviews.

The major concentration used to be on chargeable time with a low-key approach taken toward interpersonal relationships. Now, marketing skills are becoming essential. And in the future, the CPA will need to be aware of all areas of expertise in the firm and be comfortable recommending such services to clients.

Traditionally, CPAs have been accustomed to hand-prepared workpapers, notes and schedules. But this is changing fast and CPAs must accept and encourage the use of computer-prepared data.

Firm growth no longer comes automatically as a result of hard work and firm reputation. And no longer is there widespread acceptance of long working hours. Firms now need to be marketing-oriented and must satisfy staff's demand for leisure time and time for educational endeavors. In the future, a firm must have a better balance in available hours for civic duties, social activities and professional development.

Partners have been accustomed to having an equal voice in the firm's management. And along with technical expertise, seniority has long been recognized as the most important element in the partnership hierarchy. Successful firms in the future will likely adopt a corporate style of management structure as it becomes accepted that a more disciplined response to firm needs and procedures is required. Increasingly, advancement will depend on an individual's ability to attract new clients and expand services to present clients as well as on maintaining technical and business-advisory skills. As new services are added, firms will recognize the need to add trained experts in high-level positions.

In the past, local firms were labor-intensive and compensation was often based on "points" or "percentage." Typically, billing policies have been



based on per diem or hourly rates for all services, and the formulas have been based on budget standards such as rent, salaries, fringes and supplies.

Firms will be capital-intensive in the future, and compensation plans will need to be geared to rewarding producers. Firms will also need to establish an understanding with clients that special services will be on a value-provided basis. Audits may come to be looked upon as a commodity, and firm budgets are likely to require allocations for the research and development of new products and services. Such tasks, particularly those that are computer related, might suit younger staff.

Firms have traditionally offered standard prod-

ucts—audit reports, tax returns and general management and MAS reports. The typical office tools used in the preparation of these products have been calculators, adding machines and workpapers. Also, the typical means of communication has been by client newsletter or articles prepared for specific publications. Firms may offer proprietary products in the future. These could include software systems and personal financial plans and involve highly trained specialists. High technology tools such as computers and electronic spreadsheets will become commonplace, and firms will increasingly use public relations organizations, marketing experts and management specialists.

## MARKETING TAX SERVICES TO SMALL BUSINESSES

May 1984

Stated in the simplest of terms, there are three key points to marketing professional services. These are

- ☐ *Client orientation.* The emphasis of the entire firm must be toward satisfying the client rather than concentrating on the internal activities and problems of the firm.
- ☐ *Profit motivation.* The primary goal of any business enterprise is to survive. Without profit, survival is not possible.
- ☐ *An integrated effort.* This entails the complete cooperation of all departments of the firm.

The implementation of a marketing program necessitates that everyone understands these principles. It must be emphasized, however, that implementation must begin at the top of the firm, and that there must be a commitment on the part of all partners before anything will happen at lower levels. This may require a change in the firm's organizational structure, in its management methods and in management attitudes.

When developing a marketing strategy, certain variables must be considered. These may be items that the CPA can control, such as the type of products or services to be offered, the area in which they will be marketed, the price or fees that will be charged and what promotional methods will be used. But thought must also be given to the existing competitive business situation, the resources and objectives of the firm, and the total cultural, economic, legal and political environment. Some of these are variables over which the firm has little or no control, but which must be considered when selecting services so that they will give the firm a competitive edge.

### Tactics to implement your strategy

Don't assume everyone on the staff knows about all the services the firm offers. You must take steps to inform your own people as well as prospective clients if service opportunities are not to be missed.

Brochures can be good promotional tools. But to work, they must get the attention of prospective clients. They must be sufficiently interesting to create a desire for the service and induce the reader to take some action.

The design of a brochure should be straightforward and clean. I lean toward a three-panel design—one that can be folded and carried easily in a coat pocket. When it's appropriate, we mail our brochure with a client's tax return.

One of the best and least expensive ways to communicate with a selected group of clients is through the use of seminars. Properly conceived, well planned and faithfully executed, such sessions can be a successful forum for marketing tax services.

The basic considerations in planning a client seminar are to first determine its objectives, establish the conditions that will support these objectives and develop a timetable. The invitation list should be carefully prepared. If you just want to present general information, you can aim at a broad spectrum of the public. However, if the objective is to market a specific service, you must target your seminar audience carefully. The specific audience invited, its general age level, etc., must also be considered when choosing a time and place for the seminar.

Discussion leaders should be selected for their ability to communicate with the audience and not because they are the best technicians in the firm. Good presentation is very important—not just for the individual speakers, but for every aspect of the seminar if it is not to result in lost opportunity and a poor firm image. This means that attention must be paid to the arrangements, the handout material and to keeping the proceedings flowing.

Finally, there must be follow up. You must give people the opportunity to arrange meetings and make sure that all attendees are contacted by telephone a day or so later, and you must measure the results. Find out where you failed as well as where you succeeded.

Prepared by: \_\_\_\_\_  
 Reviewed by: \_\_\_\_\_  
 Date: \_\_\_\_\_

### Additional Services Reminder

Client \_\_\_\_\_ Client #: \_\_\_\_\_  
 Type of engagement (current) \_\_\_\_\_

### Additional Services to Be Considered:

(circle item no. to be considered—give details  
 in comment section)

- 1 Income tax planning—corp/personal
- 2 Personal financial planning
- 3 Estate planning
- 4 Pension/profit sharing plan
- 5 ESOP
- 6 Corporate valuation
- 7 Buy/sell agreements
- 8 Corporate fringe benefits
- 9 State tax study
- 10 Investment opportunity schedule
- 11 Other: \_\_\_\_\_

### Comments

Action taken: \_\_\_\_\_  
 Describe

Signature \_\_\_\_\_ Date \_\_\_\_\_

Keep in mind that all firms have clients who can be targeted for direct marketing approaches. The ideal time to interest such clients in tax services is during the tax filing season.

There are always countless occasions available for giving speeches on tax topics before civic associa-

tions, adult education groups and professional societies. Take advantage of these opportunities and make sure to have literature distributed to the audience that not only identifies the subject matter, but you the presenter and your firm as well. I frequently give a 45-minute talk at seminars put on by a stockbroker friend. I find the attendees at these seminars much more receptive to tax services than I initially expected and several substantial fees have resulted.

Another marketing idea is to write articles for trade journals and magazines. This is a good way to establish the fact that you have expertise in a given area. And don't forget client newsletters. They can be very helpful in marketing a particular service.

A few other points worth remembering are to keep your marketing approach simple and easily understood, and to make haste slowly—to do one thing well. Develop specialties in industries and specific services, etc., and be an avid reader to keep up with the latest developments. Look through your client lists for service opportunities.

Other ideas are to hold year-end tax planning conferences, become involved in personal financial planning and to use tax season, in general, as a marketing opportunity. Send out brochures with the 1040s, and compile and use additional service reminder sheets, such as the exhibit above. And keep in mind that some common marketing errors are trying to move too fast, not having a plan of attack and not following up.

Whether we like it or not, we CPAs have been thrust into the marketing arena. How we react in that arena will determine our future, not only from a profitability standpoint but also as to our continued existence. Competition is keen and most of us do not feel comfortable with the aggressive marketing environment. However, we should face the fact that the good old days are gone and, perhaps, if we think retrospectively, maybe those good old days weren't so good after all. If we adopt the concept that only market-oriented firms will prosper, and if we join that group who have wholeheartedly adopted the marketing concept, then we can compete honestly and cost-effectively in the marketplace.

—by James H. Wilson, CPA  
 Bristol, Tennessee

## STRATEGIC MARKETING FOR CPA FIRMS

August 1985

When I entered public accounting in 1959, the environment was considerably different from today's. It was less competitive then, loyalties meant more, one could even make a few mistakes without losing a client, and changes in professional requirements and procedures were less frequent. Now, of course, clients are just clients and usually not friends, and

change is constant and affects every area of practice, putting stress on people who find it difficult to keep up.

Today's increased competition has also put extreme pressure on prices for compliance services. Many CPA firms are struggling because they neither provide what clients want nor know how to market

their services. To market successfully, a firm has to differentiate itself from its competitors. If it doesn't, then price becomes the primary issue.

Competition also causes a problem for smaller CPA firms seeking to be their clients' business adviser. This problem is one of perception versus reality. People look at the expensive advertisements that large CPA firms place in small-business magazines and conclude that their size alone means that these firms must be good.

We have, thus far, seen only the tip of the iceberg concerning computers, and much of the equipment is being underutilized. This is changing quickly though. Some firms have found that microcomputers, when used for such purposes as developing pricing models, budgeting, forecasting and other creative uses, can help business clients increase their profits. More important, this increases the CPA's value to the client.

### **Practical strategic planning**

Running a CPA firm in this environment isn't the same as it used to be, and many CPA firms have lost their understanding of how to make money. Firms must now be run as businesses and, like client businesses, probably by tough managers. There is a strong need for unified direction—a CPA firm or a business just can't be successful without it.

To prosper, CPA firms must have a constant influx of good clients and staff. Quality products are necessary to meet the needs of these clients. In addition, CPA firms must develop a sense of how to market their services. This all takes planning and discipline and to do it successfully, firms must have strong, yet caring leaders. The work ethic among younger staff members is not too different today from what it was twenty-five years ago. Most people still want to be successful, and they will work for it. Motivation comes from within, and a good manager will hire motivated people and develop a working environment that nurtures and builds good professionals.

Look at your firm and determine its strengths and weaknesses. We CPAs are taught to focus on weaknesses, negatives and mistakes. Instead of doing that, first find out in what areas people are strong, then put them in positions to utilize their strengths without allowing their weaknesses to really hurt the firm. Similarly, look at your marketplace and at your firm's specialties and niches—all firms have them. Concentrate on your firm's strengths, not its weaknesses, and capitalize on your opportunities to maximize profitability.

Develop a standard of excellence in your firm. When change is needed, managers must have the courage to change, yet must respect the culture of the organization. Ninety-degree turns can tear the firm apart. Change must be consistent and incremental. Effective leaders never lose their sense of

direction. They are able to effect change with support, not discord.

### **The planning process**

To gain support, partner participation in the planning process is imperative. Get partners together to talk about the issues. The planning process should be formalized. While a consultant can often help in developing strategies, neither a consultant nor a managing partner should write a plan for a firm. It must have the partners' imprint. Help determine the objectives, and build a consensus in order to derive maximum benefit from the plan. In reality, you will probably find that the partners benefit more by going through the planning process than they do from the actual strategic plan.

To implement a strategic plan, a CPA firm needs tools. The best one is an annual business plan that includes an overview of the strategic marketing plan and sections on the firm's competition; personnel evaluations and needs; an evaluation of existing services and potential new services; a detailed marketing plan; and a budget—hours and dollars by departments and/or individuals. Remember that accountability is the essence of what makes a business successful. One-year plans are better than five-year ones in this respect because they more easily provide direction and help to measure results.

### **Marketing as a way of life**

Marketing is positioning your firm and yourself so that you are perceived by prospective buyers as the right CPA firm for them. What is positioning? It is presenting yourself to prospective buyers, for example, by advertising, public speaking, meeting with or writing to them. Most firms don't stress the importance of positioning but without it, you cannot sell your firm's services. You can position yourself and your firm well if you work at it and recognize the numerous opportunities before you.

To be successful in marketing, emphasize your firm's strengths. Go through your client list and find where you have a few clients in the same industry. Become an expert in that area. Give speeches, write articles and send copies to clients, prospective clients and referral sources. Join trade associations. Work at being a specialist but keep in mind that an expert is someone people *think* is an expert. Perception again. Nevertheless, you must be what you say you are to ultimately get and keep a client.

To become your clients' trusted business adviser you must keep up to date on matters that affect them, so take courses and read trade publications affecting your clients. Make sure you don't operate on yesterday's knowledge. Competition makes us all better, and while the professionals best suited to advise business people are their CPAs, we must be informed and able to sell our ideas.

Don't forget that staff need training in marketing.

Young staff members' training is almost always technical, and they are usually expected to become business advisers by osmosis. So broaden their horizons and expose them to other ideas by inviting speakers who are not CPAs but who have expertise in other areas to give luncheon addresses at your firm. Take staff to client meetings. Encourage creative ideas and additional business education.

Most CPA firms operate on a reactive basis. But to be successful in today's environment, you have to operate on a proactive basis and show that you care about helping clients make money. If you are supplying primarily compliance rather than money-making services, you will always be vulnerable to fierce price competition. To retain clients, find out what they want and their perceptions of your services. The most successful firms are helping their clients be successful. You have to be able to provide and translate data into something clients can understand and want. Therefore, differentiate your products and make your services worth more to your clients. For instance, get your partners and staff to become microcomputer-proficient. The microcomputer is the most important tool ever for local practitioners. It can help local firms to be more effective competitors.

#### Overcoming internal resistance

As far as most accountants are concerned, there is a stigma attached to selling. We are not trained for it,

and it is outside our comfort zone. Fear of rejection is another big factor in our reluctance to engage in selling activities.

Although you will find that not everyone is good at getting an order (selling), every partner and staff accountant can help in the firm's marketing program. All who service client accounts are obviously important to the marketing effort. It's always easier to sell additional services to existing clients than to introduce a new client. This is best done using a team approach. It takes persistence and patience to build the necessary bridges between various departments and people in a firm to support this effort.

Maintaining the right atmosphere in the firm is also important to marketing success. A firm should be adequately staffed, because personnel will be reluctant to bring in more business if they think it will result in their being overworked.

Finally, set up systems to reward producers. Compensation for partners and staff should recognize technical competence as a requisite. Ability to sell services should result in additional dollars. Without demeaning other partners, the producers should be heroes—people others look up to. There are golden opportunities for firms that effectively market and deliver excellent service. Your firm can and should be one of them. ☒

—by Todd S. Lundy, CPA  
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## STUDYING THE MARKET FOR YOUR FIRM'S SERVICES

November 1984

During the past five years, many CPA firms have initiated formal practice development programs. Some have found that their efforts have resulted in significant practice growth, while others have found marketing to be time-consuming, unproductive and expensive. What has differentiated the successful practice development programs from the unsuccessful ones? The answer lies in an understanding of the marketplace. In fact, the more complete the understanding of the marketplace, the greater the success of a marketing program.

The most effective and efficient way to gain a thorough understanding of the market for CPA services is to conduct a client satisfaction and referral study. This necessitates interviewing not only business owners/managers (clients and prospective clients) but also attorneys and bankers—the major referral sources.

Businesses are surveyed to obtain the following information:

- ☐ Demographics—number of employees, SIC classification, type of business entity (public or private), geographic location and role of the respondent in the selection/termination of a

CPA firm (decision maker, recommender or other).

- ☐ Current CPA firm—name, services provided, number of years engaged by the business and the respondent's degree of satisfaction.
- ☐ Degree of familiarity with other CPA firms in the area.
- ☐ Perceptions of CPA firms—overall quality of services plus the quality of the major service segments (accounting and audit, tax, and management advisory services), cost of services, and the firms' interest in obtaining new business.
- ☐ Identification of a potential replacement candidate if the respondent could no longer work with the present CPA firm.
- ☐ Factors considered in the evaluation of CPA firms—fees, location, size of firm, local vs. national firm, recommendations of others, etc.

With this survey data, the market penetration (i.e., the number of clients of a CPA firm divided by the total number of business respondents in the survey) for each CPA firm can be determined not only in total but by industry classification and em-

ployment size. From this information, the market segments in which each CPA firm competes can be identified.

The key foundation to a successful practice development program is for the CPA firm to have a satisfied client base. Therefore, if the survey indicates some dissatisfaction among your clients, you should work to improve service to present clients rather than pursue client development prospects.

The degree of familiarity with your CPA firm that businesses show can be viewed in two ways: (1) What percentage of the businesses are familiar with your firm? and (2) How familiar are businesses with your firm compared with other CPA firms? This information provides insight into the need for advertising and public relations.

Perceived quality of services reveals your firm's strengths and weaknesses, as well as the strengths and weaknesses of your major competitors. This knowledge enables you to focus on your firm's strengths when pursuing new clients and also suggests areas where your firm needs to enhance its capabilities.

It is very useful to obtain respondents' perceptions of the cost of services. The information may indicate that your fee structure is low compared to other CPA firms, and that, perhaps, an increase is in order. On the other hand, it may indicate that your fees are high relative to other firms. In this case, fees must be compared with the quality of services so that the value of the firm's services can be determined. Some CPA firms may charge high fees, but they may also provide high quality services and their clients receive good value.

Interest in obtaining new business indicates the marketplace's perception of the aggressiveness and effectiveness of your practice development program and this can give insights into the magnitude and/or direction of future efforts.

Identification of potential replacement candidates for the current CPA firm shows the respondents' awareness of your firm and competing CPA firms and the image they have of you.

The attorney and banker sections of the survey provide not only insights into the referral activities of these groups, but also the perceptions of the respondents toward CPA firms. The major elements of these two sections are

- ☐ Demographics—title of respondent, years of experience, location and size of firm.
- ☐ Referral practices—frequency of referrals and type of services referred.
- ☐ Degree of familiarity with other CPA firms.
- ☐ Perceptions of the quality of services of other CPA firms.
- ☐ Perceptions of fee structures and of respondents' interest in obtaining new business for CPA firms.

- ☐ Identification of the specific CPA firms that are referred by attorneys and bankers.
- ☐ Factors utilized in the evaluation of CPA firms for referral purposes (fees, location, size of firm, local versus national firm, recommendations by others, etc.).

This information will enable your firm to develop specific strategies such as targeting marketing efforts toward attorneys or bankers or both; determining the need for seminars, luncheons and other marketing efforts directed at these two groups; and determining which elements of your practice to emphasize when targeting attorneys and bankers.

In summary, the client satisfaction and referral study will provide you with information on the market's perception of your strengths and weaknesses, as well as those of the other CPA firms in your area. Your positioning in the overall market will be detailed, as will that of the other CPA firms with which you directly compete. The role of referral sources will become evident and the perceptions these attorneys and bankers have of your firm and your competitors will be clear. Finally, through analyzing the individual responses, you will be able to identify prospective clients, as well as learn which of your clients, if any, are dissatisfied with your firm's services.

Using this information, you can take the following approaches to your practice development programs:

- ☐ Practice development efforts based on your firm's strengths and, possibly, on your major competitors' weaknesses.
- ☐ Advertising and public relations, based on the marketplace's familiarity and perceptions.
- ☐ Targeted marketing efforts directed toward potential clients who are dissatisfied with their current accounting firm.
- ☐ Programs that are directed only toward the referral sources that can enhance your practice development.

Since surveys at various management of an accounting practice conferences around the country show that CPA firms are now spending 1 to 3 percent of their incomes on practice development activities, the need to focus these expenditures properly is critical. Many practitioners I meet find that a well-designed and executed client satisfaction and referral study will provide the data on which to base an efficient, cost-effective practice development plan. ☒

—by Jay Nisberg  
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## CLIENT-CENTERED PROPOSALS

October 1984

The key to writing successful proposals is to obtain current information on the nature and needs of prospects and to present information within the proposals that convinces them that hiring your firm represents the best way to accomplish the desired tasks. Generally speaking, prospective clients are more concerned with the professional's knowledge of their specific industry and in learning about previous or present clients and the personnel who will be directly engaged on the project rather than with descriptions of the firm's history, organization or training programs. Proposals should thus contain only information needed to cover all important points effectively.

The first step in submitting an effective proposal is the correct handling of the initial contact. This necessitates defining the client's perception of the need, probing for information that you must have in order to fully understand the situation, and nurturing a climate that permits both you and the client to openly discuss expectations. It is at this time that a "go/no-go" decision must be made.

If the decision is affirmative, you should then develop a client-centered data bank—i.e., gather sufficient information about the client's business,

industry and market, organize data based on your past experiences in servicing this type of client need and plan for the initial meeting. During this planning period, the roles and responsibilities of your proposal team should be determined and a meeting guide prepared. The guide should detail any information that must be obtained or verified and any materials that should be taken to the meeting.

The initial meeting should be conducted as a prelude to proposal preparation. The opportunity should be taken to verify the results of your research, more precisely define the client's need and make sure that both parties have the same expectations.

Proposals are usually comprised of several sections. These would include the

- ☐ *Background information*—a brief introduction of the firm making the proposal. It may also reflect some prevailing conditions or important observations.
- ☐ *Statement of the problem*—a description of the need or problem and the occurrences or events that led up to the present situation as diagnosed by the firm making the proposal. The concluding paragraphs should highlight the objectives of the proposed engagement.

### Client-centered proposal process

#### Handle initial contact

- ☐ Define client's perception of need
- ☐ Determine expectations
- ☐ Probe for "must-know" information
- ☐ Make "go/no-go" decision

#### Develop client-centered data bank

- ☐ Nature of client's organization, market and industry
- ☐ Organize your experience in handling specific need

#### Plan for initial meeting

- ☐ Establish objectives
- ☐ Prepare meeting guide
  - Information to verify
  - Information to obtain
  - Evidence to bring along
- ☐ Proposal teams' responsibilities

#### Conduct initial meeting

- ☐ Verify pre-interview research
- ☐ Define situation
- ☐ Determine expectations

#### Prepare client-centered proposal

- ☐ Assign responsibilities
- ☐ Schedule worksteps
- ☐ Prepare outline
- ☐ Expand outline with first draft
- ☐ Review draft with associates

#### Review/present proposal to client

- ☐ Schedule meeting
- ☐ Rehearse presentation
- ☐ Identify likely questions
- ☐ Conduct presentation
- ☐ Seek commitment to proceed

#### Follow-up as required

- ☐ Assess situation
- ☐ Assign responsibilities
- ☐ Make contacts
- ☐ Determine reasons for winning (or losing)

- ☐ *Methodology or approach to be followed*—the underlying rationale for the activities, steps and procedures thought to be needed for the proper execution of the proposed engagement. This is the most important section because the client must comprehend and agree with the approach to solving the problem prior to the engagement beginning.
- ☐ *Scope of work*—the precise tasks to be undertaken including their initiation, sequence and completion time. This section is traditionally bolstered by supporting exhibits which illustrate the proposed tasks chronologically.
- ☐ *Expected end product*—a concise description of what the client can expect as a result of the engagement. It also helps to alleviate any client misunderstandings as to what services and results should be expected.
- ☐ *Management and staff resources*—biographical information on the project director who has overall responsibility for the engagement, the project manager responsible for day-to-day control and management, and various staff assigned to the project. This section might also include project-organization and staff-days allocation-charts.
- ☐ *Cost*—an elaboration of all direct labor and other costs, labor overhead rates, applicable expenses, the fee and total projected cost. This section is supported by detailed line extension and summaries of all cost categories. Footnotes include cost-reduction activities such as the use of client office space and equipment.

The proposal outline and first draft can be reviewed by staff and associates who should scrutinize and criticize every component. This will greatly strengthen the final product's chance for success.

Before presenting the proposal to the client, you may wish to rehearse the presentation and identify likely questions and concerns. If others from your firm will be involved in the presentation, each one's role and responsibilities should be worked out in advance.

The presentation should be client centered—i.e., it should proceed at the speed at which the client can comprehend what is being proposed. Your goal is to obtain the client's approval and commitment to the project so that you can commence the engagement in a timely manner.

The proposal is a key marketing tool but even a superior one will never substitute for effective personal selling. Marketing efforts should be initiated long before work begins on preparing a proposal. In addition, a proposal must be visually as well as intellectually appealing because the format and packaging often play a significant part in persuading prospects that not only is a service needed but that your firm is best able to meet their needs. ☒

—by Jeffrey P. Davidson, CMC  
and Richard A. Connor, Jr.

*Editor's note: The above comments are abstracted from a forthcoming book, The Successful Plan for Marketing Professional and Consulting Services, John Wiley & Sons, by Jeffrey P. Davidson, vice president of marketing, IMR Systems, Falls Church, Virginia and Richard A. Connor, Jr., director of marketing, Pannell Kerr Forster, Alexandria, Virginia.*

## SALESMANSHIP AND THE CPA

September 1983

Many people enter the accounting profession because they are not sales oriented. They are more comfortable performing technical tasks than they are in face-to-face personal situations. Yet, the accounting profession is changing. Competition is becoming more intense and local practitioners now find they must be more forceful in letting people know what their firms can do for them.

Retail businesses estimate that they lose about 20 percent of their customer base every year. We concluded that while the rate of client loss for professional firms may not be as high, it is probably higher than it need be. So, we resolved to take a more direct approach to selling our firm's services to minimize this loss. At first we found that staff and partner enthusiasm for the idea went flat as soon as a sales training course ended. However, we decided that there are innumerable ways of learning to sell and, working with a consultant, we developed our own sales training course, the results of which have been quite successful.

The concept of selling is not so alien to professionals as many accountants believe. Practitioners use sales techniques when recruiting staff or conducting salary reviews and even when performing community services. A management letter is, in reality, a selling transaction—or could be with a few changes in the wording.

For example, if you want some clients to make changes in the way they operate their businesses, don't write them management letters just telling them what is wrong with their operations. Explain how the changes will make them money. Don't be shy about taking credit for successes that are due to your firm's efforts or about telling clients of the services your firm can offer.

Retaining a client base, expanding services to present clients and obtaining new clients all require selling ability. You can't take a cookbook approach to selling, though. Professional services are rendered on an individual basis. Clients purchase your

services because of your technical proficiency and because of personal contacts.

Although ethical constraints have been eased, many CPAs consider selling to be unprofessional. The truth is that selling, like accounting, is neutral. It is the way one sells or the way one performs accounting that is either professional or unprofessional. The objections are to incompetence in selling. Incompetency is definitely unprofessional, and one should learn to sell in a competent manner.

We decided that the best way for our staff and partners to learn lasting selling techniques was to be taught them by an outside consultant. Initially, we got resistance from staff members to the whole idea of selling. They likened it to the retailing of used cars. However, we reworked the course so that the consultative nature of CPA services is emphasized, and that has won them over. If you decide that a similar approach is the best way for your firm, too, make sure that the consultant is oriented to the needs of CPAs. Ask a lot of questions about the consultant's methods and successes. Get referrals and go to a class the consultant is conducting to gauge the participants' reactions. Check that the consultant's techniques match the personality of your firm, keeping in mind that what you have to sell is your firm—an intangible—not a product.

Talk to the instructors about the accounting profession in general and about the aspirations of your firm in particular—the markets you are in and the competition you face, etc. Finally, get the viewpoints of people who have taken the course.

The training course should be conducted during normal working hours, not on the staff's time because employees will generally try to get that time back from you anyway. Give the instructors some feedback as the course proceeds—at coffee and lunch breaks for example—so that if the message is not getting through to all staff members, a different approach can be tried. Tell the instructors about the clients. The instructors can then give examples of specific sales techniques used in real situations.

Partners, particularly managing partners, must show the way during training. They must say, "Follow me," not "Go get them." So don't sit at the back of the room taking notes; sit at the front of the class where everyone can see you. Staff members want to see what you are doing and how you react to suggested sales techniques. You'll find that if you are willing to try something, and are willing to make yourself vulnerable, staff will rally behind you. Admit it if you are uncomfortable but be positive and tell staff that you want to learn. Make it clear that you consider this to be an exciting challenge for the firm. The young lions in the firm are waiting for an opportunity like this and want to be with an aggressive firm that will provide it. Staff become disillusioned if a firm does not have a

growth plan. If the firm does not know where it is going, its people cannot plan their futures.

#### *How to make sales training meaningful*

It is critically important not to let things lapse after completion of the course. There must be follow-up. Success depends on each individual's efforts and there must be a commitment to continuing education in selling. (For example, we have a one-day selling course every six months.) Review your total sales efforts in staff meetings to see if there are other resources that can be utilized or other services that you could sell. That way people help each other.

Become familiar with and use selling terminology with the staff. Let staff hear about the successes you have had in selling. People tend to talk about their failures but you should discourage this. Be positive. Selling failures, after all, aren't the most serious calamity that can befall an accounting firm. Therefore, they should be treated as a learning experience. In fact, you can even encourage staff and partners to ask prospects why they remained unconvinced. This will not only be educational but will also enhance their personal relationships. To reiterate, give lots of positive encouragement to staff. Reinforcement is the key to constructive change.

Another way to make the sales training meaningful is to get evaluations of the course from the staff and partners. [I am more excited about oral evaluations than written ones because they are more personal and more in keeping with the techniques we wish to develop.] Find out what they liked about it and what they recommend the firm should do to make use of what has been learned. You should get lots of ideas. Have everybody report on his successes and plans, share ideas and don't be surprised by people's aggressive responses. You must be the leader in these activities, though. That's important.

As with all training programs, a sales training course must be tailored to your firm's needs, structure and philosophy. Talk it over with members of the firm and keep in mind that the longer people have been in the profession, the longer it will take to get them to make changes in the way they approach practice development. However, you must get an agreement and commitment from everyone to make those changes. Set standards for performance such as having staff make 15 new friends for the firm—influential people who will think of your firm when asked to name three accounting firms.

Selling is a person-to-person function, the basis of which is communication. You must communicate with staff and with clients and prospects in the marketplace in language they can understand. Selling is simply public relations on an individual basis. However, to sell in a competent and professional manner will take practice and skill developed by role playing. Don't be concerned about selling being



thought of as unprofessional. Your business clients sell all the time, and I, for one, have never heard a client question the professionalism of accountants

selling their services. Only CPAs do that.

—by Ronald L. Frandsen, CPA  
Brigham City, Utah

## MARKETING ACCOUNTING SERVICES IN A CHANGING ENVIRONMENT

October 1987

While attending a Rotary Club meeting three years ago, I noticed that the membership was comprised of a large number of people sixty years of age or more, a few in the forty-to-fifty age bracket, and a significant number about thirty years old. Having just relinquished my accounting responsibilities to devote time to the firm's marketing program, I was searching for a basic marketing strategy and reflected on what I had seen.

Later, as I researched, I found that what I had seen at the Rotary Club mirrored the demographic situation in our society as a whole. There is a large group of retirees, a missing generation, and a very large group commonly referred to as "baby boomers." This last group now ranges in age from about twenty-eight to forty-two, and by some estimates makes up over 27 percent of the nation's population and holds 50 percent of all new jobs created since 1970. The large number of women of this generation in the workforce is a factor in this last statistic.

People are usually at their most productive between the ages of thirty-five and fifty because by then, they possess the right combination of energy, experience, and willingness to take risks. These attributes contribute to a dynamic society. The baby boomers are just entering this age group, and this indicates the potential for significant economic growth in the years ahead.

The nature of a person's career often changes at about the age of thirty-five. The early years are usually spent honing technical skills—the "art of what you know." Then, at about thirty-five, the emphasis changes to managing staff, client contact, and attracting new business—the "art of who you know." This is particularly true of the accounting profession.

Thirty-five is also the age at which many people enter into senior management positions, start their own businesses, begin serious family financial planning, and select their CPA—in effect, obtaining positions and making decisions that can have an impact for the next thirty years. This period of adjustment and selection is only temporary, but it provides CPAs who have an understanding of the generational shift with a unique opportunity to market their services.

### The new industries

The depression generation learned its work as apprentices and became journeymen on the shop floor and at the job site. The types of businesses this

generation built tended to be in the traditional industries in which people learned their trades, such as mining, manufacturing, and construction.

The baby-boom generation, on the other hand, is the "professional" generation that earned college degrees in such disciplines as engineering, science, medicine, accounting, and finance. The businesses these people are building are in the services for which they were trained: accounting, banking, healthcare, law, government, and what is generally known as "high technology". All are growth industries. Government may not seem a natural fit, but keep in mind that, unlike their parents who were concerned with economic prosperity, the baby boomers are concerned more with quality of life—clean air and water, more parks, better city services—all of which are provided by government. The question is not whether to have these services but how to pay for them. Efficiency in government will be a primary concern and a primary opportunity for accounting firms.

### The squeezed and the blocked

The low birthrate during the 1930s and 1940s resulted in a "lost generation." At first thought lucky because economic and labor conditions tended to favor them, this relatively small group of people is now being squeezed by the baby boomers—people they often find it difficult to communicate and deal with as customers (the market) and as employees (management).

Those born after the baby-boom generation—people now in their teens and early twenties—will find their progress blocked by the larger group that preceded them. And since the baby boomers are attaining responsible positions at an early age, they are likely to hold these positions for the next thirty to forty years.

As old industries decline and new ones emerge, firms must decide how their client base will be comprised in the years ahead. If you take the lead in developing a clientele among emerging industries in your community, you can ride the crest of this new wave. Not only will it take professional and technical skills to serve these industries, though. You will need contacts and an awareness of the environment in which the people running these firms—the baby boomers—operate.

### The baby-boom generation

The children of children who grew up during the depression and World War II, the baby boomers are,

in many ways, the exact opposite of their parents. Conditions during the 1930s and 1940s instilled in the parents values such as life-long loyalty, team commitment, and fighting for a common cause, and made this generation security conscious. These parents made sure that their children never experienced hard times, such as they had. They pampered them.

In 1963, when the median age of the baby boomers was thirteen, the business community recognized the huge buying power of this group's allowances. Advertisers geared their messages to this audience with slogans such as MacDonald's "We do it all for you." These were messages that flattered the baby boomers and made them feel important.

In the late 1960s and early 1970s, the baby-boom generation reached adulthood and entered the work force. As economic conditions changed and employers needed workers with the skills this group possessed, they also began pampering them by offering improved pay scales, work rules, and benefit packages. Again, this is true of the accounting profession.

Now, the median age of the baby boomers is thirty-five, and, as mentioned before, they are in positions where they make decisions. These are the people to whom CPA firms will have to direct their marketing efforts. Let's see what effect this constant attention has had on this generation, and what types of marketing approaches work best.

**How, then, to market?**

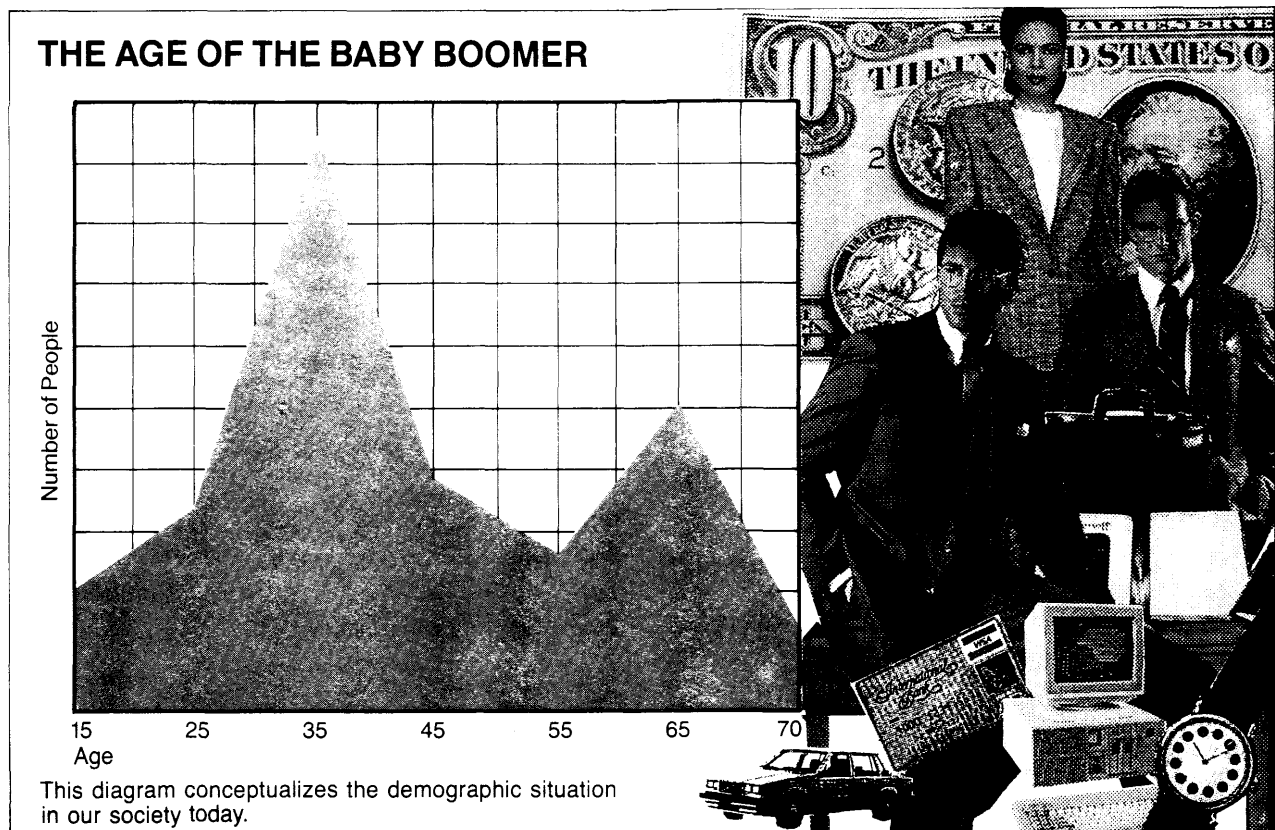
As a group, baby boomers are used to being pampered and flattered, and to receiving rather than giving. Such treatment tends to promote egotism and self-centeredness. Having only known good times, baby boomers are also risk takers. They are, after all, psychologically playing with house money. And, because it is a large group, baby boomers have always had to compete among themselves, so they are aggressive. They are comfortable with people like that.

We in the accounting profession, on the other hand, are generally not used to dealing with people like this. These characteristics are the complete antithesis of the traditional accounting culture. Nevertheless, if we are to market our services to this group, we must mirror these traits to some degree.

The baby-boom generation tends to be impatient, expects instant gratification (buy now, pay later) and, having grown up with television, is oriented toward visual messages rather than written ones. Again, these traits are the opposite of our traditional ones.

Some examples of how understanding the baby boomers and knowing how to market to them can turn around failing corporations can be found in the auto industry.

In 1964, Lee Iacocca, then at Ford Motor Company, pitched them the Mustang. The high schoolers and their parents bought the car in such huge numbers



that they revived the struggling firm. Later, at Chrysler Corporation, Mr. Iacocca successfully sold the baby boomers the K-Car and is still selling them the Mini-van. Ford Motor Company has also seen a dramatic improvement in its fortunes recently by aiming its Taurus model at this market.

Another example of how potent this market is, and how, if you can differentiate yourself from your competition you can penetrate it, is shown by the long-running Pepsi versus Coca Cola battle. In this, Pepsi successfully increased its market share by targeting the "Pepsi Generation."

#### What to Do

The lesson to be learned by CPAs who wish to market to this group is: Keep the message short and make extensive use of graphics.

So briefly,

- ☐ *Make high-quality presentations.* They should be in good taste, well thought out, and have no rough edges.
- ☐ *Develop a network of contacts.* Get the baby boomers in your firm to contact the business peo-

ple of their generation in your target markets.

☐ *Remember their traits.* Keep the baby boomers' characteristics in mind when developing your marketing program, and remember that many of them are women.

☐ *Involve them in your firm.* The "lost generation" might find the baby-boom generation different and difficult to deal with, but the younger generation is aggressive and gets results.

☐ *Make your messages more visual.* Use graphics, charts, and colors.

CPA firms have a unique opportunity to gain competitive advantages by focusing on the baby-boom generation and by challenging the same generation within the firm to lead the effort. It is an opportunity that won't be repeated until the next generational shift—some thirty years from now. ☒

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## THE PERSONAL MARKETING OF PROFESSIONAL SERVICES

August 1987

There are four major phases to the personal marketing of professional services—creating a positive public image, developing relationships, selling the services, and serving the clients. These activities usually occur in this sequence, and all of them rely on the efforts of the individual.

Creating a positive public image involves such pursuits as joining and being active in civic, social, and political organizations, and in executive and professional associations. Some specific activities may be to develop and distribute pamphlets and brochures, write articles, give speeches, arrange discussions and seminars, etc. The purpose is to become known and to develop a reputation as a doer and contributor—someone of substance and value. So, don't just say "accountant" when responding to the question, "What do you do?" Let people know that you have developed a specialty or niche and how you can help them. It is a more attractive descriptive statement.

No one type of activity should be viewed as the mold. People must be comfortable with the activity, though, and the need for making contacts must be recognized. The more contacts made, the more opportunities and, ultimately, more clients can be obtained. You need numbers. In order to get a hit, you may have to go to bat several times, and marketing is getting yourself up to bat.

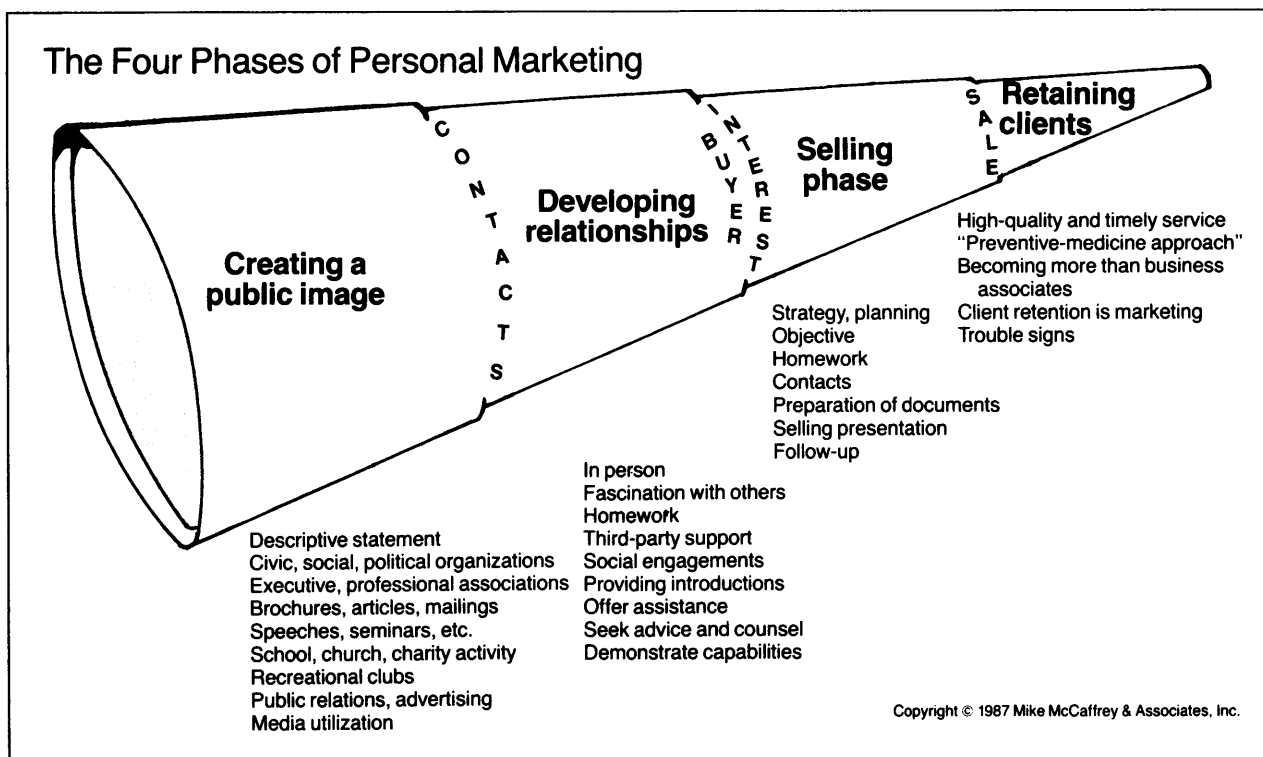
By developing relationships, we mean getting closer to potential buyers of your services. This necessitates doing your homework—really learning

about the individual, the firm, and the industry, and by providing third-party support in terms of introductions, assistance, advice and counsel. Participation in social activities is important, too. Keep in mind, though, that the purpose of taking someone to a social event is to get close, not necessarily to talk about business.

Third-party introductions and support are two of the surest ways to get closer to potential clients. The key words to remember when developing such sponsorship are help, release, and appreciate. Always make it easy for sponsors to help you by doing as much of the leg work as you can, thus saving them inconvenience, time, and effort. Also, keep sponsors apprised of the status of the contacts, and remember to thank them whether or not any business results. Two other recommendations are to prepare a ready-to-use list of sponsors—people who have given permission to be named as references—and again, to remember to thank them for their cooperation.

Although person-to-person contact is almost always the superior method, periodic phone calls and mail reminders (articles, announcements, books, and tapes) are some ways to get close while attempting to generate sales opportunities. A calendar and your reminder system can help to make these efforts timely and effective.

Read several back issues before submitting articles to any publication. The more you learn about the types of article desired, the better your chances of being published. If you are successful, have the



article reprinted on high quality paper and send copies to your contacts.

The selling phase formally begins when a prospect indicates interest in your service or product. The key to success lies in the planning of the approach. You must decide which members of your firm should be at the meetings and find out who will be on the other team, what the scope of the account or engagement will be and, importantly, why the service is being purchased. In addition, potential problems and selling obstacles must be pinpointed and the fee structure analyzed.

The selling process also includes setting up the appointment advantageously; getting in touch with contacts; preparing the oral presentation, written proposals, and documents; as well as actually making the presentation and following up on it. It should be noted that time is of the essence here. Generally, the less time that elapses between the buyer formally expressing interest and the seller responding, the better the chances of success.

Don't make the mistake of thinking that brochures, proposals, advisory letters, and such will make a sale. These items are occasionally valuable in making initial contacts and usually valuable as confirmations. No piece of paper can sell as effectively as a trained professional, however.

Once the buyer is committed, careful consideration should be given to serving the new client properly and on a continuing basis. This necessitates becoming more than a business associate who provides high-quality, timely service. It means recog-

nizing that client retention is part of the overall marketing process, and being able to spot signs of trouble and deal with problems as soon as possible.

### The Ten Commandments of Good Business

Clients are

- ☐ The most important people in any business.
- ☐ Not dependent on us—we are dependent on them.
- ☐ Not interruptions of our work—they are the purpose of it.
- ☐ Doing us favors when they call—we are not doing them favors by serving them.
- ☐ Part of our businesses—not outsiders.
- ☐ Not cold statistics—they are flesh-and-blood human beings with feelings and emotions like our own.
- ☐ Not someone with whom to match wits.
- ☐ People who bring us their wants—it is our job to fill those wants.
- ☐ Deserving of the most courteous and attentive treatment we can give them.
- ☐ The lifeblood of this and every other business.

One of the keys to retaining clients is to establish such a relationship with the decision makers that no one else would be considered to provide a similar service. Some of the pivotal areas of establishing such close relationships are

- ☐ Remembering that your conduct, attitude, and manner in nonbusiness activities are often subconsciously perceived by others as a reflection of your technical competence and attitude toward their accounts.
- ☐ Being able to converse on other topics of mutual interest beyond those in the business and professional arena.
- ☐ Going beyond listening to other people to actually hearing them. You must be able to genuinely understand clients' needs, goals, and concerns.
- ☐ Continuing to do your homework. You must know the client, the firm, and industry.
- ☐ Initiating periodic checkups and finding out how to serve the client better.

- ☐ Keeping all appointments to the best of your ability and letting clients know in a tasteful way how well you are serving them.

Friends can be the most valuable clients, and clients can become close friends. Such an approach can foster both friendships and business relationships. It is easier and certainly more enjoyable to deal with people you know and like.

Remember, marketing and selling professional services is a continuing process. There is not so much a moment of truth when someone decides to buy your services as there is a series of decisions in which less acceptable alternatives are discarded and the highest value is ultimately placed on the most desirable one. ☒

—by Mike McCaffrey  
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## DANGER SIGNALS FOR THE LOCAL FIRM

September 1982

The pursuit of growth can become an obsession, if a firm is not careful. This can cause some quite unintended results. For example, it can cause scheduling, staffing and engagement problems and difficulty in differentiating the firm's services and focus from other firms'. Owners' net income can suffer, too, because so much time and money are dedicated to obtaining new clients.

Partners and staff can become alienated by this type of marketing. It can result in their neglecting to use present client engagements as a major client-need identification tool. Many opportunities are thus missed to identify and satisfy the needs of what is virtually a "captive" market—all at minimum expense and risk of rejection.

In this era of specialization and concentration of effort, it is a mistake to attempt to be all things to all clients. Leadership and profit will increasingly flow to firms whose services are perceived as being different or better.

Currently, marketing of a CPA firm's services is done largely by the producers of that service. However, to be really effective, marketing should be organized and managed properly, with someone, preferably a marketing professional, in charge who can communicate, train staff and coordinate the various programs.

Minimally, effective marketing requires the time, budget and commitment that are afforded the firm's quality control, financial administration and personnel recruitment and development programs. It also requires that a supportive climate for marketing be created and maintained.

—by Richard A. Connor, Jr.  
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## A SMALL FIRM'S MARKETING PLAN

April 1987

To market successfully, an accounting firm must first adequately research client needs, and then invest in the necessary personnel and training to meet those needs. The firm must have a clear sense of its identity and direction, target a segment of the business community it intends to serve, and then decide how to communicate its capabilities to clients, referral sources, and prospects.

A marketing plan should include all firm activities relating to the delivery of services to clients and, to remain effective, should be reviewed annually in light of operating results and changes in the market. Existing and potential competition should be considered, and strategies devised to achieve the firm's financial goals. (See sidebar.)

Recent years have seen significant changes in our

**Marketing organization**

*The marketing program will be implemented by using the following tools:*

- ☐ Contact program—each executive will be assigned clients, target clients, and referral sources with whom periodic contact will be made
- ☐ Newsletter—our mailing list will include clients, target clients, and referral sources
- ☐ Meetings—approximately quarterly. Agenda will include client needs analysis; review of referral source performance and civic and social organization memberships; selection of target clients and specific marketing projects (seminars, etc.); and planning the marketing effort

**Marketing strategies**

*Strategies to retain current clients*

- ☐ Give good, courteous, timely service—be accessible
- ☐ Charge fees appropriate to the work performed
- ☐ Maintain presence through newsletter
- ☐ Send article clips to clients
- ☐ Implement contact program for major clients
- ☐ Offer recommendations whenever possible

*Strategies to increase services/referrals from clients*

- ☐ Analyze client needs and assist in satisfying observed needs
- ☐ Request referrals
- ☐ Educate staff on firm capabilities
- ☐ Client briefing campaigns—acquaint clients with services offered
- ☐ Distribute firm brochures

*Strategies to acquire new clients*

- ☐ Maintain contact with former clients and employees
- ☐ Give speeches to target groups
- ☐ Write articles for publication
- ☐ Cultivate referral sources
- ☐ Promote location as part of firm identity
- ☐ Teach seminars and courses
- ☐ Target prospective clients
- ☐ Train staff to market services
- ☐ Submit news releases on firm activities
- ☐ Participate in civic and social organizations
- ☐ Send newsletter to potential clients and referral sources
- ☐ Distribute firm brochures to potential clients and referral sources

profession. These trends seem likely to continue and should be considered when developing a marketing plan. It seems inevitable, for example, that the accounting profession won't be exempted from the ever-increasing governmental involvement in the lives of citizens. Compliance with government regulations will require increasing specialization and contribute to the demise of small firms as providers of the full range of accounting services.

Accountants are expected to be leaders in the use of microcomputers. At a minimum, practitioners must be able to assist clients in computer and software selection and implementation. Clients will also expect a high degree of automation in the accountant's practice.

Marketing activity will continue to intensify, with the result that the public will become increasingly aware of firm capabilities and price negotiability. Accordingly, the small firms most likely to survive will be those which emphasize specialization.

The frequency and extent of tax law changes during the past few years have been pushing generalists away from tax practice. Tax practice will continue to be a worthwhile endeavor, however, for those dedicated to mastering its intricacies.

CPAs enjoy the public's confidence and are considered objective and independent. We are in a great position to provide financial planning services if these can be blended into our existing practices. PFP services necessitate projecting into the future, though, while our profession tends to attract historians who worship the past. In order to be successful, firms must hire staff that is suited to providing PFP services. These staff members may not necessarily be CPAs.

**Our firm—its strengths and weaknesses**

We are a local firm with a total staff of four people. Our practice is concentrated in the Jackson, Mississippi area, and we are committed to delivering high-quality service at a reasonable price. We provide the full range of accounting services, although we specialize in the tax and consulting areas.

Our major strengths lie in our technical expertise in the tax and financial planning areas. We have earned respect within the profession, can communicate well with our clients, and project a caring attitude. Also, our office is situated in a novel location—a renovated historic building in the old section of town.

We are a young firm and have a few weaknesses. We have suffered from past staffing deficiencies and immature management. We are lacking in computer technology skills, and our financial situation is not robust.

Our current practice is comprised of a diversified group of small businesses and individuals. Our best clients are highly educated and compensated indi-

viduals—a large number of them being professionals, although we don't specialize in any one industry area.

Historically, clients have come to us as a result of referrals. We have found the traditional public relations activities (community involvement, speeches,

etc.) to have been ineffective for our firm. We believe that a concentrated effort aimed at obtaining referrals from current clients and other sources would be highly successful. With these thoughts in mind, we developed a marketing plan for 1987. ☒

—by Joe D. Jones, CPA  
Jackson, Mississippi

## ADMINISTRATION OF A PROFESSIONAL MARKETING PROGRAM

September 1984

The implementation of a professional marketing program is much more difficult than developing the plan. Day to day client obligations of the accountant in charge of marketing disrupt the implementation stage, causing many programs to either fail or be abandoned. Many firms have realized that the administration of a successful program requires considerable time . . . more time than is available. Additional complications affecting the firm's marketing efforts include: diverse client bases, varying and not easily defined services, and the various professionals' areas of specialization. The net result: marketing efforts can prove to be very frustrating.

### Defining the marketing purpose

How can you take the frustration out of your marketing efforts? The first step in developing a marketing program is to define its purpose. The intention of marketing is to communicate to clients, prospects, or referral sources the ability of your firm to provide quality services. Therefore, your first mission is to define the program. To define a program you must understand the needs of your market and match them with services clients perceive are needed. This can be accomplished by surveying your own clients and by surveying special markets (geographic, industry, etc.). Some of the key points you should identify are: (1) how clients select accounting firms, (2) any industry concentrations, (3) major competition, (4) the market's awareness of your firm, and (5) your current share of the market. The major purposes of our firm's first market survey were to examine the:

- ☐ Distribution of clients in our area.
- ☐ Identification of competitive firms and how they were being utilized or selected.
- ☐ Types of services provided.
- ☐ Length of tenure with current accounting firm.
- ☐ Average annual expenditures with CPA firms.
- ☐ Perceived strengths of current firms.
- ☐ Perceived weaknesses of current and former firms.
- ☐ Characteristics considered when choosing an accounting firm.
- ☐ Main sources of information on CPA firms.

Once the needs have been identified, make a list of the services provided by your firm. There will probably be many more than you first realized. For ex-

ample, when we listed all of the services our firm could provide, there were well over 100 under the broad headings of auditing, accounting, tax, business and personal management planning.

Next, compare the needs identified through the survey with the services you listed. Very often, these lists do not match. Our survey showed that the market perceived that all services offered by competing accounting firms are similar. Clients ranked timeliness and availability (intangible aspects of firms) ahead of technical expertise or service quality. The goal in designing a marketing program is to communicate how a firm's services can meet the market's identified needs. If timeliness is an identified need, then a listing of all the services the firm could provide is an ineffective message. A message showing how the firm provides timely services would be much more successful.

### Defining the marketing program

Now that you have defined your target market's need, you must select a program for communicating how your firm can meet that need. Therefore, the next step is to examine alternative methods of communicating your message to the market. For example, one alternative you might consider is an advertising campaign. This can range from advertisements in newspapers, trade and business journals and listings in the yellow pages or other directories to radio, television and cable television messages.

Other ideas include seminars and news releases about promotions, new clients, etc. News releases have the advantage of keeping the firm name in front of the public while not being perceived as advertising. Direct mailings are another alternative. You can mail prospects your firm brochure with illustrative case histories and personal cover letters. If you select this means, be sure that the covering letter emphasizes some personal response. For example, a letter indicating that a phone call will be forthcoming. Then remember, it is important to follow up when promising contact.

Client newsletters can also be very effective. We sent out about 1,600 monthly to clients, referral sources and prospects. Along similar lines, brochures and literature describing firm or market spe-

cialties can be effective mailings. These might take the form of inserts for the newsletter that is mailed to clients or prospects that have specific interests.

Involvement in community and civic organizations can also result in valuable exposure to other professionals and business people. You can hold joint meetings with referral sources. You can become better known in the community through sponsorship of public events. In our case, we worked with a public television fund raising program. As part of our contribution, members of the staff donned green visors (with the firm name on them) and handled telephone calls during the program. Partners acted as auctioneers. Our firm's involvement on prime time television sponsorship was a huge success.

However, it is best to combine several of these alternative marketing methods in order to reach your desired target market. Choose the most efficient, cost-effective and timely methods.

#### **Implementing the marketing program**

Once the marketing program has a purpose and has been defined, the next stage is to develop a system to coordinate and control it. This is the only means of insuring its success. A number of problems usually arise at this time, such as: Who has the overall responsibility, how to secure the necessary time, and integrating the program into the current structure in a way that embraces all employees.

Many firms are taking the first step in overcoming the problem of overall responsibility by hiring an in-house professional marketing director. At Williams, Young & Associates, the marketing director is responsible for coordinating all programs, both internal and external, that lead to successful marketing efforts.

Prior to implementing any program, you must integrate it into your current internal structure. In other words, you must be able to support internally, your external efforts. We have developed many internal systems that have contributed to the success of our marketing efforts. For example, we maintain a correspondence manual that includes sample letters, such as copies of request for proposal letters, follow-up and engagement letters, client correspondence and personnel letters. The idea is to try to personalize all form letters within a consistent and professional framework.

#### **Encouraging support**

We also keep a log of proposals, proposal statistics and firm bidding activities. (Some proposals can be 30 to 60 pages in length.) All of our staff review this

log weekly. We maintain an activity report that lets everyone know what is happening in the upcoming weeks, who is attending, what topic will be discussed, etc. This is to encourage both support and participation in outside activities.

Contacting clients is, of course, very important. Our key-client program requires special forms to be filled out. These forms list service opportunities, client benefits, all pertinent dates, the dollar value of services offered, follow-up schedules, who is responsible, etc.

Other programs in our internal support system include a firm prospect list. This records the organization and the action plan. We also have a speaker's list that records topics and subjects and the time required for each presentation, and a membership directory which steers the firm to where it wants to be in the community and helps identify organizations that generate clients. We also have information available to assist us in any direct mailing programs.

It is essential that everyone, in varying degrees, has a part in the marketing efforts of the firm. To motivate everyone, the marketing program must be highly professional, enhance the operation of the firm and not interfere with other professional activities. To achieve this, implementation must be carried out according to a strict timetable, personnel must be briefed on the firm's marketing efforts, the requisite material must be prepared and the appropriate follow-up program defined.

You have to let staff, as well as clients, know what you are doing. To keep staff informed, we have a weekly newsletter that provides technical updates, notices of events of interest to the firm, staff announcements, changes in procedures, marketing news and information about equipment such as computers.

#### **Summary**

To successfully integrate a marketing program into an existing professional organization, one must examine the needs of the market, match the firm's services to these needs and communicate with *all* the people involved. One can structure the marketing program so that it complements the existing operation by defining all programs, setting measurable objectives and developing internal systems, such as a communication program, to support the marketing effort. ☑

—by *Ruth J. Dumesic*  
marketing director  
*Williams, Young & Associates*  
*Madison, Wisconsin*



## Section 8

# NETWORKING, REFERRALS, CROSS-REFERRALS

<b>CROSS-REFERRALS: A GREAT WAY TO STRENGTHEN CLIENT</b>	
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## CROSS-REFERRALS: A GREAT WAY TO STRENGTHEN CLIENT RELATIONSHIPS

December 1984

As successful practitioners, we should constantly look for ways to strengthen our relationships with clients. Needless to say, perhaps the most effective way to accomplish this is to provide quality services in a timely manner. Few of us, however, take advantage of another highly effective means of generating client goodwill—that is, helping our clients to expand their businesses through cross-referrals with other clients.

Part of any client development program should be a review of the firm's client base, specifically to determine how clients can benefit from each other.

Some of the techniques we employ at our firm include the following:

- ☐ We keep our staff aware of what our clients are doing by occasionally focusing on a particular client in our in-house newsletter.

- ☐ We encourage staff to do business with client firms, and to make a point of letting clients know where they work.
- ☐ Partners hold small dinner parties for five to ten clients and their wives. The guest list is drawn up specifically to bring together clients who are in compatible businesses and who may be able to do business with each other.
- ☐ We constantly encourage our partners and managers to look for cross-referral opportunities in their day-to-day dealings with clients.

Showing clients that we are interested in helping them expand their businesses is one of the most effective ways of retaining clients for life. ☒

—by John G. Hodgson, Jr., CPA, CFP  
New Bedford, Massachusetts

## MEET-A-CLIENT

September 1985

Clients sometimes produce goods and services that other clients can use to help improve their business operations. To facilitate such transactions, Doty, Jarrow & Co., a Chicago, Illinois, CPA firm, often runs an item in its client newsletter describing the product and offering to introduce interested parties.

A few months ago, for example, a client of the firm introduced an "electronic imager," a device that, apparently, can convert the telephone system into a closed-circuit television network, and transmit video images anywhere in the country. As well as describing the equipment and how it works, the article suggested some possible uses that other clients might find appealing.

Another issue of the firm's newsletter told of the specialized, results-oriented services provided by a small management consulting organization. Believing that some of these services are in areas where contacting a management consultant would not occur to clients, Doty, Jarrow offered to make the introductions.

Cross-referrals are a great way to strengthen client relationships. A short article under that title in the December 1984 *Practicing CPA* contains some other ideas on helping clients expand their businesses through contact and dealings with each other. ☒

## REFERRAL CULTIVATION, NETWORKING, AND PROSPECTING

July 1987

Networking is a two-way process of sharing information with other people and is one of the most valuable marketing tools an accounting firm can use. Networking can generate potential client leads. This is particularly true if you are networking with lawyers, bankers, or current clients. To make the process work properly, however, it is essential to keep track of where the leads originate, and whether the response is generated through direct mailings, phone calls, seminars, or other means. Let's see how this works.

It might start, for example, when your firm is conducting research into new market areas. Ini-

tially, the contacts would be made with key people in a particular market in order to gather pertinent information. Later, these contacts, plus those made at association meetings and seminars, can result in networking opportunities.

Rather than taking a shotgun approach to developing a network, you will probably find it better to target several appropriate individuals at community organizations or business and trade associations. These are people who can often provide invaluable information about prospective clients. Also, marketing associates at other CPA firms might enable you to enlarge your group of contacts, and

they might provide ideas and information that can help your marketing efforts.

To work, the process must involve giving as well as taking. You cannot tap people's resources and give nothing back. The results you want may not be immediate, either. You need to be patient, get the entire staff involved in various organizations, and make every effort to expand your network of contacts.

Key contacts who are informed about the range of services a CPA firm can offer are vital to its success. The maintenance and expansion of such a network should, therefore, not be a haphazard undertaking.

Firms should develop plans that will maximize their contacts' opportunities for increasing the scope of services they perform for clients and encourage the clients to contact the CPA firm regarding any business problems they encounter. This will let clients and potential clients know of the CPA firm's interest in their businesses, increase its exposure to important business groups, and enhance its name and reputation within its service area.

The simplest way to increase the number of key contacts is to take an inventory of those you presently have, note how you met them, and then go out and do more of the same. This approach should be supplemented with a systematic method, however, to ensure that you cover all areas where key contacts may be developed.

Some potential contacts are right on your doorstep. Friends, relatives, neighbors, and employees of clients should not be overlooked. They may have influential social or business contacts outside their working environments.

Names of potential contacts can sometimes be obtained by inviting guests to bring colleagues to firm-sponsored seminars and presentations. Attendees should then be asked to fill out a card with their names, addresses, and areas of professional interest so that they may be mailed articles, technical publications, or notices of events relating to their fields.

Some brokers and agents can become valuable contacts. Stock and commodity brokers, insurance agents, investment bankers, and venture capitalists all probably have extensive business contacts and realize your potential for referring business to them. They will be interested in directing business your way in the hope that you will reciprocate.

Former employees and former clients are also potential sources of new business. Former employees are often in management positions with their new employers and may have some input into the selection of an accounting firm. Former clients may have left your firm for reasons that are no longer valid. For example, they may be moving back to your service area, or they may have had a manage-

ment change. Or perhaps your firm is now in a position to provide a service they really need. It is well worthwhile keeping all lines of communication open.

### Developing key contacts

The first important goal is to arrange meetings with your contacts. There must be some incentive for them to attend. You can structure a relatively simple approach that should not only induce them to meet with you but should also make the initial meeting a success.

First, determine what you have in common with a contact. Perhaps there are mutual friends or acquaintances, mutual business interests, or even hobbies. See if you have a particular service or approach to solving problems that might be of interest to them. Let them know you want to learn more about their businesses, that you want to refer business to them.

Keep in mind that some of the items you think might be of interest may not seem so important to them at all. Quite often, contacts must be courted. Send them newsletters. Check the newspaper business sections for articles about their new ventures, promotions, or other achievements. Call to congratulate them and take them to lunch or dinner. Cross-reference referral sources. One contact might be able to open doors for another.

Once you are in a face-to-face meeting with a key contact, your goal will be to direct the conversation to their clients and their clients' needs. If the client is a banker, for example, and one of your specialties is helping growing companies improve their cash-management techniques, you might want to talk about the cash-flow problems faced by many small, growing businesses.

To be prepared to create this type of opening in the conversation, you should keep current on trends in business and finance. Good sources for such information are business and financial newspapers and magazines.

Because of busy schedules and daily practice pressures, you may fail to keep in touch with some of your clients. Unless you nurture these accounts, however, you are in danger of losing them. Visits with clients should be with a definite purpose in mind, though. They could be to

- ☐ Personally deliver an audit report or to review the draft of a report.
- ☐ Introduce tax and management advisory services personnel and to explain your firm's capabilities.
- ☐ Formally present a management letter.
- ☐ Hold a client planning meeting to discuss how to improve services to the client.
- ☐ Attend the client's annual meeting.

**How to activate contacts**

If key contacts are to be persuaded to recommend your firm to their colleagues, your ties with them must be strong, and the business relationship must be mutually rewarding. Once the initial discussions are completed, the process of contact maintenance should begin. This, of course, is similar to client maintenance. You must keep contacts happy and apprised of your firm's capabilities and make them aware of opportunities to refer business to you. This will require constant effort. They must be educated to detect when businesses can benefit from your services. To make the relationship mutually rewarding, you should

- ☐ Always try to refer business to them.
- ☐ Send them material, information, and articles on topics that could affect their businesses, or which might otherwise be of interest to them.
- ☐ Invite them to your firm's professional and social functions.
- ☐ Send them your capabilities brochure and newsletters.

- ☐ Phone periodically, just to say, "Hello, how's business?"

Use the dynamics of multiple referrals. When you are asked to refer a banker, for example, give the names of three. This gives the contact or client a choice, pleases three bankers, and gives you a lot of mileage from one referral opportunity. To obtain the greatest benefit, follow up the referral with letters.

Any new tax legislation, financial accounting standards pronouncements, or developments in the areas of tax planning or financing, should trigger a communication from you to contacts and clients who will be affected by these events. You can send them a note plus a copy of a relevant technical publication or material from a CPE course, or set up a meeting. It is not necessary for the information to be of major significance. What is important is that you use every opportunity to let contacts know that you have their interests in mind. ☒

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## Section 9

# CONFERENCES/MEETINGS/SEMINARS

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## CLIENT SEMINARS FOR PRACTICE DEVELOPMENT

May 1981

Client seminars can be a very effective means of practice development. They can get clients, prospects and referral sources together and build closer relationships. Also, by concentrating on client-centered topics, seminars can offer a forum for participants to get answers to their questions and find solutions to their problems. Seminars can condense and focus a CPA firm's marketing efforts. They enable the firm to show off its strengths in specific areas and subtly promote its full service capabilities.

If seminars are to fulfill the purpose of generating new business for the CPA firm, and not just be an excuse for a party, they must be carefully planned and discussion topics and seminar participants carefully selected. A presentation by James D. Fussell, CPA, of Charlotte, North Carolina, at the AICPA's practice management conference in Las Vegas last year, covered many of the key factors in the development of a seminar. Let's look at a few suggestions based on comments at that session.

The first step should be to form a development team comprised of people who are particularly knowledgeable about the subject selected for discussion at the seminar. Then, since there are many details involved, appoint a coordinator to ensure that everything is ready on time. A considerable amount of material must often be prepared. Not only will you need announcement letters, invitations and, perhaps, other advance mailing materials, but you may also want discussion leaders' manuals, handouts or visual aids such as slides and flip charts.

There are decisions to be made, such as where and when the seminar will be held, what the room arrangements will be and who will be the discussion leaders. And don't forget to order refreshments (or even meals if necessary), place cards and name tags.

The topics selected for discussion must be timely, specific as to problems and solutions, and directly related to the participants' field of interest. The subjects can be technical, nontechnical or of a self-help nature such as time management. This is an excellent opportunity to demonstrate your firm's competence in a particular area.

Whom should you invite?

Let's assume, for example, that the subject to be discussed at a particular seminar is one that is of interest to financial institutions. So, start by making a list of all the financial institutions in your service area organized by size and type. Make a note of the names of decision makers in these

organizations and of referral sources. You should also note whether or not these people are known personally by your partners and staff.

You can then identify possible participants by first reducing the list to include only those people who would be interested in the discussion topic you have selected and then reduce it further to a blend of clients, prospects and referral sources. The number of participants should be limited to a group that can be easily handled by the facility and discussion leader(s) and that will permit easily developed relationships. Perhaps 20 people are about right. So, if further reduction of the names on your list is needed, eliminate people unknown to partners and staff. However, don't just select clients and their good friends or your good friends. Create a good mix of personalities, friends and acquaintances.

When you have made your final selections, send invitations and arrange for someone to monitor acceptances. Send advance mailings to those who accept, and prepare place cards and name tags.

When participants arrive for the seminar, have staff greet them. Introduce participants, and make sure partners and staff join the group for lunch (if you are having one) or at the cocktail party.

The actual format of the seminar should be one that allows you to establish the relationship of the problem (the discussion topic) with the participants. You are trying to solve clients' problems, so don't just give examples. Present case studies that relate to the participants as a group.

The idea is to obtain the total involvement of participants. There should be group discussions of the cases. In fact, good discussion is a must.

How does all this relate to new or additional business? Your goal in holding the seminar is to develop referral sources. Suppose for example, that the participants are regional investment companies involved in venture capital investments. You can offer services such as audit and tax advice that not only can improve their clients' welfare but can also reduce the risk of investment to the venture capital firms. Their clients can become your clients. Seminar topics that come to mind for participants such as these would include tax planning for closely-held corporations, and cash management, and financial analysis and planning for small- to medium-size businesses.

Shortly after holding the seminar, follow up with letters to all who were invited (the participants and no-shows). Make phone calls to those with whom warm acquaintances were made and develop friendships. Put participants on the mail-

ing list for your client newsletter.

You need a strategic marketing plan if your seminars are to be an efficient practice development tool. Draw up a position statement and analyze your firm's present situation, its strengths, weaknesses and the problems and opportunities confronting it. Devise a plan of action listing the objectives of your marketing effort and the role that seminars will have in helping you capitalize on your strengths.

If your seminars are to work, do them well. Form seminar development teams, pick good sites, prepare good materials, select good discussion leaders and encourage good dialogue. Above all, get your partners and staff to mix with participants. Ask yourself if you would have enjoyed the seminar and been impressed had you been a participant. If you can answer yes, then you are well on the way to making your seminars an effective means of practice development.

## HOW TO PLAN A SUCCESSFUL CONFERENCE (PART 1)

May 1982

It is all too easy when organizing a conference or seminar to become so preoccupied with details of the subject matter to be covered that making the actual arrangements receives inadequate attention. This may not matter too much if the function is small or held where you have full control of the situation. However, if a large number of people are attending and you are using a public facility and don't cover all contingencies, you are likely to be very disappointed with the outcome. There is more to arranging a successful conference or seminar than meets the eye.

So first, let's look at some of the things our editorial advisers and the staff of various AICPA divisions do to plan a conference that meets the needs of both participants and speakers and then, in a subsequent article, at the way details should be handled with the staff of the facility you will be using.

- ☐ The key ingredient to a successful conference is concentrated attention to detail—it is virtually impossible to overplan—and most firms find it best to appoint one person to be responsible for all of the arrangements. Often, this person is the office manager, although one firm says that the greatest thing they have done in this respect is to give the job to a very competent executive assistant.

Partners are, nevertheless, still heavily involved in the proceedings. It is they, after all, or a committee appointed by them, who must establish a budget and make sure that the conference achieves the desired purpose.

- ☐ Monitoring the arrangements for a major event may be accomplished by using a file folder and a blank 8-by-10-inch calendar. The file folder should contain a checklist of tasks to be completed, together with the names and phone numbers of contacts (perhaps even correspondence, program drafts, etc.). The calendar should be used to note the date tasks are to be done.

- ☐ Nothing kills a conference faster than a speaker (even a highly recommended one) who cannot adjust to the surroundings. Someone who is effective with small groups but who won't use a microphone with large groups is not what you want. Similarly, a dynamic speaker with large crowds may overpower a smaller gathering. While you shouldn't rely solely on familiar speakers, just make sure they have been heard in a similar situation.

Speakers should use high-level materials and have supplemental data that can be handed out. Participants usually like to follow speech outlines and presenters should be encouraged to refer to the headings during their speeches.

- ☐ Having a central theme for the entire conference will help tie together the individual presentations. It is also important to plan the order in which the speeches will be presented. Don't put the lighter material first—get to the serious business early when everyone is fresh. Save the humor for after lunch.
- ☐ Speech outlines, topic summaries, handout materials and biographical information are useful in the development of promotional brochures and invitations. So set early deadlines for the receipt of these items to allow for any unexpected bottlenecks in production. The invitations should be mailed at least six weeks prior to the event and some firms recommend a follow-up notice be sent two weeks before.
- ☐ Set a reasonable starting time for the conference and don't deviate from it. Similarly, determine how many hours the program will require and end the conference at the time specified. Allow adequate travel time or else participants will leave early to "beat the traffic" or to "get home before dark."
- ☐ Timing is obviously an important point. Make sure each speaker knows his time

frame and stays within it. Brief remarks are just that and an hour is an hour. Put this in writing so that speakers are on notice and be prepared to interrupt them when their time is up.

- Hold pre- and postconference meetings of the moderator, speakers, committee and staff members to ensure that everyone knows the format and what to do. Mentally walk through the entire conference. Cover everything from the greeting and registration of participants, handing out materials, refreshment breaks, etc., to the use of special equipment.

If speakers do need special items, make sure that they are available, that they work

and that there is an operator if one is required. Surprises aren't needed. Feedback from attendees can be evaluated at these meetings and utilized in the planning of the next conference.

Sometimes, just a few small touches make the difference between the success and failure of a conference. Some suggestions to make things click are that those responsible for running the conference are on hand early to make sure that all is in order, that there is someone to greet and look after outside speakers, handle questions and distribute material to the participants. In fact, being observant of and catering to attendees' needs can hardly be overemphasized.

## HOW TO PLAN A SUCCESSFUL CONFERENCE (PART 2)

July 1982

Most people who have been involved in the planning of a meeting or conference are convinced that if something can go wrong with the arrangements, it probably will. Because of this, it is very important to put all instructions in writing, go over them in person with hotel representatives until you are sure they understand what you want, and to follow up before and during the conference to make sure your instructions are being carried out.

If you don't take all these steps, you might find, for example, that the hotel has unexpectedly moved your reception desk from the assigned and announced area to another part of the hotel or even moved your conference to another room. Another surprise might be the hotel's failure to close the bar at a reception at a specified time with the resultant extra costs being charged to you. Having a definite idea of what is needed and paying strict attention to every facet of the arrangements should enable you to minimize the possibility of such occurrences.

The first requirement is to find a facility in a good central location which has rooms that are large enough for your needs and plenty of parking space. You should then discuss the meeting setups with the sales manager and check that the tables provide enough room for papers and participants' legs. No one should have to straddle table legs. If this can't be avoided, at least make sure the tables are in good condition with no rough edges. Snags and ruined stockings early in the day are frustrating. Check the room specifications because hotels tend to be optimistic about room sizes. If there is a sliding partition, find out if it is soundproof and if the sections of the divided room will have individual air conditioning and heating controls and sufficient light. Very few meeting rooms have more

than folding partitions anymore so it is a good idea to find out who your neighbors will be. An adjacent room in which a loud movie is being shown or one in which people are singing or conducting distractive activities will not add to your program.

If this is to be a meeting or conference where food will be served, think ahead. An all-day meeting with a luncheon break does not require a heavy meat-and-potatoes meal. Nothing makes the early afternoon session more dreary than full, sleepy participants. Use a little imagination and have sufficient food but no more than people would normally eat. Soup, salads and making your own sandwiches can be highly successful. To go along with this type of lunch, a good afternoon break could include fresh fruit, ice cream and mineral water, along with the traditional coffee and soft drinks. If cocktails are in order before lunch, limit the time and the size of the drink so as to limit the consumption. Better yet, have some standard pre-mixed drinks available along with juices. Be sure you know how you are paying for the liquor—by the drink or by the bottle. Don't leave anything to chance. Sample entrees and inspect the bar and beverage counter if you harbor any doubts about quality or service.

The function book or diary is where the hotel sales department records meetings on a day-to-day basis. Watch as the sales manager enters your requirements. Don't leave it at this though. You must now write to the sales manager detailing absolutely everything.

In your opening paragraph, state the name of your firm or the group sponsoring the meeting, the number of people attending and the inclusive dates of the meeting. Divide your requirements



into parts—meeting arrangements, food functions and accommodations if these are needed.

Under meeting arrangements, specify the room chosen for the conference, the time it will be used and the meeting setup (include a scale drawing if you can). Ask that the room be kept at a specified temperature and that necessary items such as ashtrays, wastebaskets, writing pads and pencils, water pitchers and glasses be provided.

Under food functions, list the times refreshment breaks, cocktails and luncheon should begin and end. Food requirements must also be listed in full together with the agreed cost including tax and tips.

If accommodations are needed, acknowledge the block of rooms that will be held and state how the reservations will be handled.

To lessen the chances of mistakes occurring

#### Do

- ☐ Accept the responsibility for planning a meeting with the idea that you will give it your full attention.
- ☐ Assign enough people to the job to assure the attention to detail required.
- ☐ Work directly with the staff and line personnel of hotels and suppliers so that they know exactly what you want.
- ☐ Put everything about your conference in writing. Use diagrams to make things clear.
- ☐ Request a confirmation of your requirements letter (space, food, beverages, accommodations) signed by responsible officials of the hotel or other suppliers.
- ☐ Enter into contractual agreements with hotels and other suppliers, especially where the size of the meeting or materiality of costs seem to warrant it, and be sure that you have legal recourse in the event that the hotel or other suppliers fail to perform up to specifications. This applies primarily to large meetings of 500 people or more.

- ☐ Make an effort to keep within your budget for every meeting.

#### Don't

- ☐ Upset the hotel staff with half-formed plans. Wait until your plans are firm and are in writing before conferring with responsible officials.
- ☐ Forget that hotels are in business to make money and will hold you strictly to account on your estimates of attendance at meals (called guarantees)—an area in which the penalties can be large if you overestimate.
- ☐ Be haphazard about accommodation reservations and observe the release date or you may be charged for the rooms anyway.
- ☐ Overlook in your budgeting the fact that most food functions will have tax and gratuities added to the bill. Know the gratuities and tax rates before you go into detailed planning of meals.
- ☐ Forget that gratuities to people such as banquet captains and head housemen, over and above the normal 15 to 18 percent, will keep the service machinery well oiled and running smoothly. The timing of gratuities is a matter of judgment—a token in advance with the promise of more later is usually the best way. You can discuss gratuities for other workers with the convention or catering manager after the conference.
- ☐ Make last minute changes without documenting them carefully and conferring with key hotel staff members about them.

Possibly, the best advice when planning a conference is to keep in mind the axiom in the opening sentence—that if something can go wrong with the arrangements, it probably will. Still, if you pay close attention to detail as suggested above, the chances of the conference being a success will be greatly improved. In fact, the chances are that it will be such a success that you will be asked to plan the next one.

## HOW TO RUN A MEETING

March 1978

To a busy CPA who attends a lot of meetings, a poorly conducted one can be a major time waster.

Very often this is because participants go to a meeting without knowing its exact purpose, precisely what will be discussed or what preparation is needed for them to be able to make a valuable contribution.

It is most unlikely that maximum benefit can be obtained from a meeting without advance preparation for it.

Also, as is often the case, participants become enamored with the process of carrying on the meeting rather than focusing upon the results they want it to achieve.

Therefore, the most important thing to think about in planning a meeting is its prime objective, that is, the output you wish to have at the end of it.

Once the meeting objective and purpose have been determined, the next thing to do is plan the agenda. The responsibility for this will fall heavily

on the chairperson who should probably spend as much time planning a meeting as conducting it. Here are a number of tips that he or she should keep in mind:

- ☐ List all items of possible discussion and determine the specific problem, situation or opportunity that makes each one particularly appropriate.
- ☐ Keep clearly in mind what the discussion of a specific problem, situation or opportunity is expected to accomplish.
- ☐ Determine in advance who should be at the meeting. The only people who should attend are those who are essential in view of the items suggested for discussion.
- ☐ Based on the above analysis, select those items that you (the chairperson) consider would be the most profitable to work on and list them in order of their importance.
- ☐ Develop an agenda for the meeting, showing the items to be worked on, the objective(s) of the meeting, questions that should be answered and the preparation that is required.
- ☐ This detailed agenda should then be sent to each participant in advance of the meeting in order to permit adequate time for preparation.

If two-way communication is desired during a meeting, it is the chairperson's responsibility to

ask questions that will produce worthwhile participation. You must plan these questions in advance, taking care to avoid those with built-in answers.

During a meeting, it is often useful if the chairperson frequently summarizes the points that have been brought out up to that stage. This helps prevent repetition and pushes the group ahead.

Here are some things to think about on that score:

- ☐ Summaries should be recapped in terms of the objective(s) of the meeting. It is useful to visually record the group's ideas on a chart or blackboard. This also helps prevent repetition and aids in summary analysis.
- ☐ As the summaries are made, and if the purpose of each is to reach a conclusion, then the chairperson must ask for or give a conclusion in order to move on to the next point.
- ☐ Once a conclusion is reached, it is necessary to spell out some action so that there is sufficient follow-through at the end of the meeting. In other words, who is going to do what and when.

The chairperson should never leave a subject until he or she has clearly stated what action will be taken by whom and by what date. Remember, the purpose of the meeting is to come to some conclusion as to what action will be taken.

—by W. Thomas Porter, Jr., CPA, PhD, Seattle

## ORGANIZING EFFECTIVE SEMINARS

June 1985

A well-executed seminar can be an effective way for a firm to build closer relationships with clients and referral sources and demonstrate its strengths and capabilities in specific areas. Monroe Shine & Co., a New Albany, Indiana, CPA firm holds seminars on three or four topics every year, usually in that city and sometimes in its two other locations—Bedford, Indiana, and Louisville, Kentucky—as well. Most of the seminars are on the general subject of tax—estate planning, year-end tax planning, etc. Sometimes, though, the program is designed to emphasize one of the firm's emerging specialties, such as computer expertise.

In describing the firm's approach to organizing effective seminars, Dale L. Gettelfinger says that some of the seminars are designated as being of general interest, such as those on personal financial and year-end tax planning, while sessions on business or estate planning are geared for special-interest groups. Other ideas are programs that cement relationships with clients' accounting personnel below the controller level or programs on "hot topics" such as entrepreneurship. In all cases, the idea is to

eventually generate more revenue for the firm.

Some of the seminars feature speakers who are well known as authorities on specific subjects. Mr. Gettelfinger points out, however, that there are certain disadvantages to using a speaker who is not a member of the firm. These include having less control over the content of the presentation and the possibility that the handout material may not be of the desired quality.

Monroe Shine does not schedule seminars during tax season but tries to space them from June through December. Mr. Gettelfinger says the timing should be coordinated with the firm's other practice development activities and with seasonal events. Similarly, the choice of weekday should be influenced by local considerations such as early closing as well as by vacations and holidays and, of course, by competition with civic and sporting events.

Except at estate planning sessions where the presentations can take 2½ hours, most of the speeches are of 45-minute duration. Typically, registration is from 3:00 p.m. to 4:00 p.m., with the presentation starting at 4:05 and finishing at 4:50. The attendees

can then have refreshments and still be home by 6:30. Mr. Gettelfinger suggests keeping participants' travel time in mind when deciding how long to make the sessions. He says that people who have to spend an hour and a half traveling to and from a seminar might feel cheated if they only get a 45-minute presentation.

Food and drink! Monroe Shine usually has a cheese and raw-vegetable tray. (Mr. Gettelfinger says the colors are appealing whereas potato chips and peanuts look awful.) The firm also provides a buffet (meat, chicken, salads, etc.) drinks and essentials such as sodas, mixes and, of course, tea and coffee.

All staff members attend Monroe Shine's seminars. Everyone is told to mingle with guests and, if possible, to sit with clients during the presentation. Spouses are invited too, so that they can get a better understanding of what the firm is trying to do.

The preferred room for the seminar, Mr. Gettelfinger says, is one that can be divided. One-half can then be used as a reception/registration area. The idea is to have one door leading to the other section so that people can be moved in quickly.

Just inside that section, the first thing confronting attendees is a table on which are firm materials. Seating is separated into smoking and nonsmoking areas (the chairs usually have to be rearranged) and the firm tries to put fewer chairs out than the number of people expected. Extra chairs are kept in the back of the room as reserve, but the overall effect is one of an overflow crowd.

The seminars are advertised in the firm newsletter, and Mr. Gettelfinger says staff is also encouraged to issue invitations. The firm utilizes a part-time marketing person and finds that friendly relations with the local newspaper often results in publicity.

Computers make pinpointing desired attendees and compiling a list of them relatively easy. Invitations can be mailed to clients in general or to specific groups such as bankers and attorneys, medical practitioners or trade association members.

Mr. Gettelfinger says that, given some thought and planning, seminars can be an effective means of practice development, and he thinks they should be part of every firm's marketing effort. ☒

### **...To Provide Additional Services...**

We practitioners are often informed that the best source of additional services is our present client base. Our firm has certainly found this to be true. A good example of this occurred last year, when we obtained several man-weeks of work by taking advantage of the service opportunities presented by the 1984 Tax Reform Act. Here's what happened.

Once the tax act was finalized, we began work preparing a seminar on its implications. We developed a presentation (including slides) and had invitations printed, which we sent to all our clients, both corporate and individual. Although we knew that many people would not attend, we believed that by making all of our clients aware that we were holding a seminar on this important topic, it would reinforce their perceptions of our firm.

We arranged to hold the seminar at a local Holiday Inn. The seminar was free of charge and ran from 5:00 p.m. to 6:00 p.m., with cocktails afterward. We also arranged for a similar presentation about two weeks later that was sponsored by our local Chamber of Commerce.

After our seminar had been presented, we informed our corporate clients of the significant compliance issues that they now faced. We explained that we would like to spend a few hours reviewing their existing procedures so that we could make any necessary recommendations. Most clients were extremely receptive to this type of engagement.

We developed a checklist of issues raised by the tax act, some of which led to discussions with clients about such areas as pension and fringe benefits and, ultimately, to additional work. To prepare for these engagements, we held a special two-hour training session for the staff members involved, explaining the purpose of the program and the methods to be used for gathering information.

The entire program was an overwhelming success. We received high marks from our clients for being "on top of things" and providing them with valuable information. We were happy because it strengthened our relationships with clients and provided chargeable staff hours during the normally slower months of November and December. ☒

—by John G. Hodgson, Jr., CPA, CFP  
New Bedford, Massachusetts

### ...And Develop Clients

All CPAs know of the broad-ranging effects the Tax Reform Act of 1984 has had on clients. By late spring last year most lay persons knew something of these effects too, and it seemed to us to be a pertinent topic for a seminar—an opportunity to expand our referral base and increase our clients' awareness of our technical capabilities.

To begin, we ordered some seminar materials from a publisher. These consisted of slides, an outline and brochures containing highlights of the act. On receiving the data in August, we selected a date for the seminar—November 1, 1984.

The detail planning started immediately. Believing the right choice to be important in how the quality of the presentation was perceived, we selected an internationally recognized hotel as the location for the seminar. The format we chose was to conduct the meeting from 4:00 p.m. to 6:00 p.m. and follow this with cocktails and hors d'oeuvres.

We next prepared a letter outlining some of the material to be discussed and sent this with an invitation to 191 clients three weeks prior to the presentation. We also wrote a newspaper article about the seminar and sent invitations to selected physicians, dentists, lawyers and bankers. Everyone was asked to respond in about a week.

After receiving responses from only 20 or so people by the requested date, we had a few moments of doubt. People continued to call us, up until the day of the presentation, however, and we confirmed 65

reservations. Of these, only 37 ultimately showed, but we had 16 walk-ins for a total attendance of 53 people, or 18 percent of those invited. Six people from our firm also attended.

Each attendee received our firm's version of the TRA highlights bound in one of our own folders. This made an attractive and permanent source of reference material. Two partners made the presentation utilizing a script and the slides we had purchased as visual aids. The actual presentation lasted one hour and twenty minutes, and we allowed thirty minutes for questions and answers. Most attendees stayed for a while afterward to mingle socially, and this proved to be an excellent opportunity to meet new people and answer individual questions.

No charge was made to the participants of the seminar. The hotel did not charge us a room fee, and the minimum guarantee for food and drinks was easily surpassed.

Our total out-of-pocket cost for the seminar was \$1,070. This consisted of \$250 for seminar material, \$572 for food and drinks, and \$248 in printing costs. In addition, the individuals who made the presentation spent about 60 hours in preparation, and professional and secretarial staff members were involved in the planning and preparation.

We believe this presentation was well worth the time and money spent. Although tangible results are difficult to measure, the promotion of the firm was accomplished; the goals we set were achieved. ☒

—by *Steven M. Corley, CPA*  
*Norman, Oklahoma*

### CONFERENCE TIPS

June 1985

Sponsored by the AICPA's management of an accounting practice committee, the fifth annual conference for chairmen of state society MAP committees will be held on July 18 at the Marriott Hotel in St. Louis, Missouri.

The purpose of these conferences is to exchange ideas on AICPA and state society MAP programs so that members can be provided with the best possible information on operating their practices. For example, this year's sessions will include discussions on establishing a MAP committee and organizing MAP seminars, conferences and round-table groups.

At one of the sessions last year, the 34 participants (representing 27 states) heard Jim Grimsley, then chairman of the AICPA MAP conference subcommittee, discuss what has proved successful at the AICPA MAP conferences.

Although the intent was to aid state societies in increasing their MAP activities, practitioners who are involved in organizing other types of conferences or firm seminars might also find much of this information helpful. Here are a few of Mr. Grimsley's suggestions.

- ☐ Planning is the key to a successful conference and should be undertaken as soon as pos-

sible. Site accessibility should be carefully considered.

- ☐ The development of a central theme for the conference can be helpful in tying together individual presentations and in controlling the session.
- ☐ Control is also enhanced if the moderator and all panelists remain seated at the head table during roundtable discussion periods and question and answer sessions. (Roundtable discussions are a major part of AICPA MAP conferences and receive high ratings from participants.)

In addition, some participants like to ask questions immediately after a presentation, and it can be helpful if the moderator and panelists stay at the head table for the first few minutes of a refreshment break so that attendees' queries can be answered.

- ☐ Speakers should be enthusiastic and professional, use high-level materials and have supplemental data, forms, etc., that can be handed out. A speech outline with space for

notes is also popular with participants, and presenters should be encouraged to refer to the headings in the outline during their speeches.

- ☐ Don't rely solely on familiar speakers. Despite the risk, use less experienced people because it increases the pool of available talent. However, make sure that they have been heard before in a similar situation.
- ☐ Have a back-up speaker at the conference in case one is needed. (This job is often best assigned to a committee member.)

Obviously, no one conference format is right for every occasion, and some experimentation will probably be necessary to determine what works best in a given situation.

In this regard, Mr. Grimsley emphasized the desirability of pre- and post-conference meetings of the moderator, speakers, committee members and staff to ensure that the chosen conference format is understood and that feedback from the attendees may be evaluated and utilized at a following conference.

## Section 10

# DEVELOPING CLIENT NEWSLETTERS AND FIRM BROCHURES

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## CREATING CLIENT NEWSLETTERS—IN-HOUSE

June 1981

The most important advantages that a local accounting firm offers its clients are accessibility, prompt service and a personal concern for the people and community it serves. The first two characteristics are inherent in rendering quality service, while the third requires constant attention and work.

There is a very effective way to show your concern and enhance your firm's close relationship with clients and community. It can be achieved through the use of an interesting and informative client newsletter.

Many practitioners raise two objections to writing their own newsletter—the time and expense that this involves. However, there are several advantages to preparing such a newsletter in-house, although outside services can be engaged for the purpose, and there are ways to minimize the costs. In fact, the expense of printing and mailing a newsletter may be held to as little as 35 cents a copy, while the time spent organizing and writing depends to a large extent on how efficiently you use available resources.

Begin by singling out the people in your office who have an aptitude for writing. Many staff members not only like to write but have had training on college newspapers. Next, seek out the photography buffs. Using an in-house photographer cuts expenses considerably, and interesting pictures can make your newsletter very attractive. Also, an office artist is a rare but lucky find—cartoons and sketches add variety to any publication if they deal with appropriate subjects. Photographs, too, should illustrate a situation, not just a group of smiling faces unrelated to a story.

Once you have assembled your newsletter staff, make full use of it through suggestions and criticisms both in the planning stages and on a continuing basis as you publish. The first decisions you will have to make concern the

- ☐ *Frequency of publication.* Should it be monthly or quarterly?
- ☐ *Size.* 8½ x 11 inches is the usual choice.
- ☐ *Format.* A four-page single sheet (11 x 17) with an 8½ x 11 inch insert for a tax calendar works well for many firms.
- ☐ *Title.* Choose one that suits your firm and will appeal to your clients.

Unless you have unusually good printing equipment in your office, it is desirable to use an outside printer. When you start with a new printer, take along some copies of other firms' newsletters to give an idea of what you want. The size and style of headings and type faces, and the grade of paper

used are very important if reading is to be effortless. Printers often make excellent suggestions in these areas.

The cost of each copy will vary depending on the number printed and the market area. Currently, a reasonable cost estimate is \$250 for 1,000 newsletters. The printer will collate and fold the newsletters which may then be stapled at the bottom and addressed. It is important that all clients and friends of the firm be on the mailing list.

To prepare your mailing list, copy clients' names and addresses from accounts receivable listings onto index cards, sort these by partner and allow each partner to review them. Partners may wish to add or delete names, or perhaps replace a corporate name with that of its president. In any event, the cards should be frequently reviewed and updated. You can quickly and cheaply make address labels by typing the information on these cards onto 8½ x 11 inch sheets of sticky label paper and running these sheets through the office copying machine. The cost for bulk mailing newsletters printed on a good grade of paper is approximately ten cents per newsletter.

With the format, printing and mailing details of your newsletter settled, you should now turn your attention to the most important aspect—its content.

The first edition of a newsletter is much harder to write than subsequent ones. You will probably find, as most of us do, that as you settle into a routine, the task becomes much easier. The important point to always keep in mind though is that the basic aim of a newsletter is to build good client and community relationships. Many newsletters contain too much technical detail, are dry to read and difficult for the layman to understand.

While the tone should be professional, a newsletter should have enough light reading to keep its readers' attention. All we try to do is give clients general knowledge of technical subjects, so if they have similar problems, they can then get in touch with us.

Each firm will obviously have different ideas about the type of information to include and where stories should be located in the newsletter. These decisions are strongly influenced by firm specialties and the talents and interests of the newsletter staff. For an idea of what can be done in a local firm, let's look at the actual layout of our newsletter which is published quarterly.

Page one, which is headed *Client Newsletter*, the prosaic name of our publication, usually features a story of particular importance or one of

general interest and a related photograph. The top of page two contains our masthead with names of partners, addresses of offices, telephone numbers, etc., and usually continues the page one story. We also put firm news, such as new additions to the staff, new CPAs or honors given firm members on this page. For special news, pictures are included.

A tax calendar, with due dates for the coming quarter, appears on pages three and four. These pages are printed on a single loose sheet that clients can remove for reference purposes. In fact, clients often post this sheet in their offices, so we make sure our firm name is on it. Any additional room on these pages is usually filled with brief alerts on important tax changes.

Page five is often used for a long article about tax or accounting. Stories on estate and gift taxation or on interpreting financial statements are common examples.

We think the last page is an excellent spot for a community interest story. Local events such as craft festivals or local sites such as historic buildings make good subjects for a short story and a photograph. These stories make no mention of the services our firm provides. However, they do reflect our involvement and interest in the community we serve. The lower half of this page is held open for mailing and return address information.

There are a number of things you can do to make the preparation of your newsletter easier and quicker. Here are some suggestions:

- ☐ Use a dictating machine when preparing first drafts of articles. This is a tremendous time saver, and may well make the difference between having the time to publish a newsletter and not doing one.
- ☐ Keep a cassette or portable recorder in your desk and as you think of subject outlines, record your thoughts. When the cassette is filled, have it transcribed for later use.

- ☐ Short tax alerts can be composed in very little time if you dictate interesting ones as you read the weekly tax service reports. Similarly, long articles can be dictated for later editing and revisions.
- ☐ Each edition should have a caveat (in bold face or set off by a rule) to the effect that information in the newsletter is general and that the firm should be contacted for further details.
- ☐ A time schedule is important. It takes several days to get photographs back from the developer. Have contact pictures made first to select the ones you want printed—it's cheaper than having the whole roll made up. Your newsletter should be finished and ready for the printer three weeks before the anticipated mailing date. The printer may want at least a week to make a galley proof for you to read and it may take several days to work in the corrections.
- ☐ Your articles must be technically correct but need not be pedantic and your writing will be more appealing if you work in your special interests from time to time—anything from astronomy to mythology.

The publication of a newsletter can have many pleasant effects. Staff members featured in newsletter stories will appreciate the recognition of their accomplishments and the people who work on it will enjoy the variety it adds to their jobs and be proud of their publication.

Remember to encourage originality from contributors to assure an interesting and informative newsletter. An effective newsletter that gives your clients valuable business, accounting and tax information and which is sprinkled with enjoyable local features of interest to your clients, will demonstrate your firm's involvement and interest in clients and community.

*—by H. W. Martin, CPA  
and Jenny L. Johnson  
Rome, Georgia*

## THE CREATION OF A CAPABILITIES BROCHURE

January 1981

Many firms have brochures; nevertheless, we believe ours to be somewhat unique because it is arranged as a capabilities brochure. We began distributing this brochure to clients and potential clients in late 1976, and since its inception, have received many favorable comments and requests

for information as to how it was developed. Because there seems to be such widespread interest in how one begins, what help is available from outside the firm, what problems are encountered and what it costs to produce such a brochure, we believe it would be useful to share our experiences with other practitioners.



The first steps we took were to determine who we were trying to reach and what we wanted to tell them. The selected audience consisted of our present clients and business-related contacts such as bankers and attorneys. The message the brochure had to convey contained information about the services we offer (our capabilities) and the experience and competency of the people who provide them. The objective was to bolster the firm's image for referral sources. This message, in turn, largely determined the layout of our brochure.

We chose an ivory-colored cover with just our firm name and logo on the outside front and back. (The logo is embossed on the front and printed on the back.) Inside, there are four pages of text and graphics explaining our firm's capabilities in a wide range of accounting, auditing, financial planning, management consulting and tax reporting services to a variety of businesses. This information is not subject to frequent change, consequently these pages are saddle-wired to the cover. We changed the design slightly for the second printing to allow for flexibility, and the brochure now has a pocket on the back cover to hold updated information on partners and staff. The pocket is slotted so that it will also hold a business card.

We decided on the general distribution procedures before going ahead with the production of the brochure. A copy was mailed to each client with our year-end newsletter, and partners carried a supply of brochures in their cars so they could give them to business-related contacts. This is why the back pocket is slotted to hold a business card.

Distributing the brochure in this manner to specific types of people allowed us to make a fairly accurate estimate of the number of copies to print. Partners counted the clients assigned to them and the number of copies they would need for bankers, attorneys, service club members and other business-related people, and these individual amounts were added to find the total number needed.

We used a consultant—a graphics design firm (such firms are listed in the yellow pages)—in the actual production of the brochure. This firm did the layout, design and camera-ready artwork and contracted the photographer and printer. Advertising agencies can also perform these functions; in fact, they may offer a wider array of services than design firms, but they may be more expensive.

To develop information for such a project, we suggest talking to clients or other CPAs who have produced brochures or good-quality catalogues. We also recommend talking to a few consultants in order to become acquainted with their styles,

procedures, prices, qualities and reputations. Review samples of their work and ask them how they would give your firm an image of quality or originality or whatever thought or message it is you wish to convey.

You should also talk to printers and collect samples of their finished products to learn about different processes and qualities of printing. Quality can vary widely depending on the printer's experience, the type of work usually processed, the equipment used and the printer's attention to detail.

We decided not to hire an advertising agency or public relations firm and wrote our own copy for the brochure. This required many hours of thinking, drafting and searching for the right phrases. We believe the text should be reviewed by at least one other partner who is not involved in the original drafting and should, if possible, be edited by the consultant. In our own case, each partner wrote his own biography following a somewhat standard format. This was then subject to editing by the partner in charge of the project.

One partner should be in charge of the brochure project from the time it is originated to its actual delivery from the printer. The time required for the project (usually six months to a year) depends on how quickly the various procedures can be completed. With partner involvement, the minimum lead time required is probably as follows:

<i>Procedure</i>	<i>Time required in weeks</i>
<input type="checkbox"/> Search for consultant and become acquainted with people in the trades.	4
<input type="checkbox"/> Text writing and preliminary editing. (Time varies depending on whether or not you have established the concept of what you want to convey.)	4
<input type="checkbox"/> Conferences regarding preliminary design. (This requires much thought and consideration of alternatives.)	4
<input type="checkbox"/> Layout and design of mock-up and copy editing or rewriting.	2
<input type="checkbox"/> Search for printer. (Consultant can help in comparing prices and quality of work.)	2

<i>Procedure</i>	<i>Time required in weeks</i>
<input type="checkbox"/> Approval by partner of camera-ready artwork (with, perhaps, a second partner review because this is the last chance for revisions.)	1
<input type="checkbox"/> Approval by consultant and partner of the printer's proofs.	1
<input type="checkbox"/> Brochure at printer (from camera-ready artwork to finished product)	4
Total time required	22

*Some of these procedures may overlap slightly but most are consecutive.*

Our first brochure cost approximately \$5,000 for 2,000 copies. The second printing of 2,000 copies in 1980 cost \$6,000. These prices included everything, such as design, photography, artwork and eight pages of two-color printing. They did not include any cost allocation of our partners' time.

The potential for problems is present at every stage, so here are a few words of advice:

- ☐ Select a consultant very carefully. Make sure you get good service and a quality product.
- ☐ Set a timetable for each step of the project and make sure that it is followed.
- ☐ Appoint as partner in charge of the project a person who is imaginative and creative and who pays attention to detail. (Diplomacy and leadership won't hurt either.)

Should you elect to develop a capabilities brochure, we hope it will meet with as much success as ours has. In addition to the positive effect it has had on clients, our employees' morale has also been boosted by the enhancement of the firm's image. We are convinced that our capabilities brochure is worth the cost and all the effort that went into its creation.

—Russell B. Miller, CPA  
Palo Alto, California

*Readers might like to refer to "Your Printed Image" in the January 1980 issue for other ideas on firm brochures.*

*If you have experiences in preparing brochures and other materials that would be of interest to other practitioners, we would like to hear from you.*

## LETTER TO THE EDITOR (CREATING BROCHURES)

March 1981

The article in the January 1981 issue on creating a capabilities brochure mentions that you would like to hear from people who have experience in preparing brochures and other materials. One suggestion that we would like to make concerns the use of photography in a firm's printed materials.

Most articles on the subject suggest using professional photographers, presumably to ensure obtaining high-quality photographs. However, we

have found that we have several very competent photographers on our staff who are able to fulfill all our needs for portraits and other photographs. This has saved us a considerable amount of money in our publications. We believe that since photography is such a widespread hobby, practically every accounting office has someone on the staff who can take very good pictures.

—H. W. Martin, CPA  
Rome, Georgia

## YOUR PRINTED IMAGE

January 1980

A certain philosophy is needed if your printed materials are to play an effective part in your practice development. *Creative Printing Attitudes* are required to give the right impressions of the firm and to direct printed matter toward positive results.

CPAs sell their professional expertise to the outside world. If you are to have a printed image that conveys to clients and prospective clients what your firm is and what it does, it will probably be necessary for you to obtain the services of professionals skilled in public relations and advertising.

Design is all important. An attractive, attention-getting yet dignified logo should be developed and used on all stationery, envelopes, business cards and reports to give a unifying identity to the firm's printed materials. Suitable typefaces must be selected—they can tell the public whether you are old-fashioned or modern. Then, there are other considerations such as whether certain information would look better engraved or embossed and what quality and color paper should be used. These are areas in which outside professionals

will be able to help you.

All firm brochures should present the firm's background in summary form. They should

- ☐ List principal members and describe their training, experience and specialties.
- ☐ Describe the services the firm performs and the types of services in which it specializes.
- ☐ Include pictures and samples of work produced by the firm's data processing department.
- ☐ Contain photographs of the office and personnel.

The brochure can give bankers, attorneys, clients and prospective clients a thorough understanding of the services the firm offers. Be careful of dated materials though. For example, consider having a separate brochure describing the partners because of the possibility of partners leaving or being admitted to the firm.

Of course, any descriptive materials in the presentation folder (there should be a pocket in which to keep them) must be used in accordance with AICPA and state society guidelines. Here are a few items that might be included in the folder: an introductory letter, a data sheet on the firm (or your firm brochure), a listing of clients (with their permission) or types of industries you represent, letters of recommendation (at least one from a banker), range of fees (if requested), photographs of office and staff, your client newsletter, copies of published articles, firm bulletins on accounting, taxes and other business subjects, a list of affiliations, biographies of key personnel and partners' brochure.

Let's have a look at some of the printed communications we have with clients to see what can be done with them to create a good impression.

#### Financial reports

These can be personalized by having portions pre-printed to include the client's logo and typeface. An impressive effect can be achieved by having the logo appear through a cutout in the cover of the report.

The management report should list areas of weakness in the company generally, then specifically (as in the methods for handling cash receipts and disbursements, accounts receivable, payroll and inventories) and make suggestions for strengthening those procedures. The report is more useful to clients if each item covered is numbered (both the weaknesses and the recommendations) and space is provided for the client to indicate what action is taken.

#### Tax returns

The tax transmittal letters can be color coded to the tax forms to improve communication with clients and make it easier for them to follow the instructions.

#### Reminders

Letters should be mailed about thirty days prior to clients' fiscal year-ends to remind them that deadlines for filing dates are approaching and that tax planning should be considered. It is useful to have available a checklist of items normally required for a fiscal year closing—particularly for new clients.

Estimated-tax voucher transmittals (form 1040 E.S.) present an opportunity to communicate with clients three times during the year. Instead of mailing vouchers 2, 3 and 4 with form 1040, you can hold the vouchers and mail them three to four weeks before estimated taxes are due, along with a tax-planning message from your firm. Information concerning material needed and setting up appointments in order to prepare individual income tax returns should be mailed no later than January each year.

Communications with clients are further improved by a follow-up letter on meetings you have with them. These letters should present highlights of the meetings—reminding clients of actions they are supposed to take so that returns can be filed. Also, the goodwill generated by thank you letters to persons referring clients to the firm and welcome letters from the managing partner to new clients cannot be overestimated.

#### Client newsletters

A newsletter lets clients know what the firm can do and is probably the most dynamic form of printed communication with them. Newsletters should describe what is going on in the firm—specialty departments, staff movements, promotions and professional attainments, and upcoming presentations by staff members. They should tell clients of changes in the tax laws or other regulations and have articles on better business methods, estate or financial planning, etc. Our newsletter, which we have been publishing for nine years, has as the last page a tear-off calendar featuring tax return due dates, holidays and other notes of interest. This page, like the first page, has our firm's name on it—a continuing reminder to the client of the services we provide.

Don't be too ambitious to start with if you are thinking of publishing a client newsletter. It is probably a good idea to set up an editorial board to consider who will do the editing, where the

## Exhibit 1

# RACHLIN & COHEN

## CERTIFIED PUBLIC ACCOUNTANTS

Penthouse • 1320 South Dixie Highway • Coral Gables, Florida 33146 • (305) 667-0412 (Dade) • (305) 525-3608 (Broward)

We welcome you as a client of Rachlin & Cohen.

That means a great deal to us. As managing partner, I want to assure you that we are going to do everything we can to justify your confidence in us.

The present firm of Rachlin & Cohen was established on January 1, 1976. However, its three predecessor firms each started in the Dade/Broward area over twenty years ago. Today, the firm is one of the largest independent firms in the state of Florida. We believe we reached this status by providing attentive service for our clients, and we plan to so continue in the future.

While we provide all the traditional services of a CPA firm in accounting, auditing, tax and management consulting, we also feature a number of specialized departments such as rate regulated industries (utilities), legal support, etc.

I am taking the liberty of enclosing a copy of our monthly newsletter. The calendar of due dates is on a perforated page which can be removed and forwarded to someone in your organization who might be responsible for the follow-up of the items listed. You will now be receiving this newsletter on a regular basis, and should you need additional copies directed to others in your organization, please let me know. Other literature about the firm, its partners and departments is available. A call to my office would get you this information. Should you have any questions regarding your account with us or with proper names, addresses, listings or whatever, please feel free to contact our bookkeeping department at 667-0412 (Broward 525-3608).

We at Rachlin & Cohen welcome you as a client and hope we will fulfill your expectations. Do not hesitate to call me directly if you find we are falling short of the mark or if we can be of any additional service to you.

Cordially yours,

NSR/jan  
Enc.

Norman S. Rachlin  
Managing Partner

## Exhibit 2

## Record of Conference

Prepared by: \_\_\_\_\_  
 Date: \_\_\_\_\_ Location: \_\_\_\_\_  
 Time from: \_\_\_\_\_ to: \_\_\_\_\_  
 Client: \_\_\_\_\_ Subject: \_\_\_\_\_

☐ ☐ ☐  
 Client no.  
 (if applicable)

Client

*In Attendance*  
 R & C

Other

*Discussions*

*Decisions*

-----  
*Action Line*

Action taken: \_\_\_\_\_ Follow-up required: \_\_\_\_\_  
 Copies of this RC: ☐ Client file; ☐ P.I.C. \_\_\_\_\_; ☐ \_\_\_\_\_; ☐ \_\_\_\_\_; ☐ \_\_\_\_\_

ideas will come from (newspapers and magazines), who will prepare the articles (typing and proof-reading) and do the paste-ups. You should also solicit suggestions for articles from other members of the firm to generate a team spirit and, importantly, make sure that an enthusiastic person is in charge of the project.

There are other things to consider when starting a newsletter, such as

- ☐ Whether to use in-house copy equipment and colored paper.
- ☐ Should the newsletter be published monthly, quarterly or irregularly?
- ☐ Complying with professional ethics regarding the articles and distribution of the newsletter.
- ☐ Maintenance of the mailing list (the newsletter should go to all clients) and exchanging newsletters with other firms.
- ☐ Using third-class mail (particularly if publication is irregular).
- ☐ The use of special effects—headlines, clip art, photographs, etc.—and professionals in the field—printers, advertising agencies, public relations firms—can help design an attractive, attention-getting newsletter.

#### Internal image

Don't forget your own firm when trying to win friends and influence people. You can eliminate the memo pollution by screening internal communications and centralizing much of the information through an internal journal. This can cover subjects such as personnel promotions, social activities, in fact, everything of interest to the staff.

Another publication should be used to keep partners, principals and managers up-to-date on firm policies.

All stationery and essential internal memos should be standardized, as should various control sheets and forms used for agendas and minutes of meetings, evaluations and recording telephone conversations.

This is the age of consumerism, and professional attitudes toward advertising and promotion have changed. If you wonder what advertising is all about, think of the word AIDE. Basically, the idea behind advertising is to create

*Attention* You have to break through the ho-hum attitudes.

*Interest* Clients want to know what's in it for them.

*Desire* Clients must really want your services—they cost time and money.

*Effort* It takes from 16 to 28 attempts to get results.

If done well, the firm's printed materials will look very professional and will help bring the firm together as an entity. They can aid enormously in retaining clients and expanding services to them and in getting new clients through referrals by letting people know exactly what the firm can do. Attractive materials can also help in recruiting the best personnel. And, believe me, it is never too early to begin improving your printed image. I started doing some of these things when I was a sole practitioner—today we are one of the 100 largest CPA firms in the country in terms of AICPA membership.

—by *Norman S. Rachlin, CPA*  
*Coral Gables, Florida*

## HOW TO OBTAIN MATERIAL FOR YOUR FIRM NEWSLETTER

February 1983

The most popular way to market an accounting practice is through a firm's own newsletter, according to an article in the January issue of *Public Accounting Report*. Apparently, 89 percent of the respondents to its *CPA Marketing Report* readers' survey publish newsletters and 78 percent send them to nonclients. Yet, some of the questions submitted at the last AICPA conference on practice development show that firms experience considerable difficulty in obtaining a constant supply of suitable material for their newsletters.

What subjects are suitable for a firm newsletter and where can its editor find such items? Judging by

the wide variety of firm newsletters that I read, I'd say that virtually anything goes.

Of course the more frivolous types of material are only to leaven the loaf, to make the newsletter more readable. The bulk of CPA firm newsletter contents consists of subjects appropriate for discussion by a CPA firm with its clients: reminders about reporting requirements; changes in tax laws and regulations; ideas for better ways of managing; advice about personal finances and so on.

Where does the editor of a firm letter find interesting, timely items along these lines? One good source is the daily practice experience—questions that cli-

ents are asking; problems frequently encountered; topics clients seem to be most ignorant about—especially where better information would be beneficial to them.

I find it useful to keep “subject files”—manila folders with headings such as “Passing along a closely-held company,” “Sharing income with family members,” “New rules for reporting tip income,” and “Withholding on interest, dividend and pension payments.” Into such folders go notes, quotes, newsclips, magazine articles—anything that applies.

Be sure when selecting a topic that it’s one of interest to most of your readers. No need to bore the majority while helping just the few who would be affected.

Another source of story ideas is the professional journals and newsletters you yourself read—tax magazines and the like which you can be quite confident your clients don’t receive. These often contain subjects which, when put into straightforward English, are grist for your mill as a newsletter editor.

I am not suggesting that such items be lifted intact. While original texts, art work, titles, drawings, etc., can be copyrighted, facts cannot. The fact that the FASB has issued Statement no. 70, *Financial Reporting and Changing Prices: Foreign Currency Translation*, is in the public domain—nobody can

copyright that. To gather subject ideas from several articles in separate publications and rewrite them completely, giving the new composite the benefit of your own insights, is not plagiarism. It’s *synthesis*—the fashioning of something new and original from preexisting components.

There is a way to quote directly and in full from another publication, and that is by prearrangement with the publisher and by giving credit. This is a common practice among CPA firms that publish newsletters and exchange them with other firms, sometimes under a standing agreement that items can be used as is—with a credit. Such arrangements among directly competing firms are rare.

Some firms that publish newsletters ask that everyone on the professional staff remain alert for items that can be written up in the firm letter. In most cases writers sign such contributions, which is probably an incentive but also acquaints clients with staff they may not deal with directly.

If everyone in a firm is always on the lookout for newsletter items, the product is bound to benefit. The interest shown by the managing partner will play an important part in accomplishing this.

—by Arthur Lodge  
AICPA, New York

## Section 11

# ADVERTISING AND PUBLIC RELATIONS

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## BENEFITS OF PUBLIC RELATIONS TO CPA FIRMS

November 1986

Although public relations efforts do not directly sell products or services and cannot be measured in terms of contribution to fee revenue, such activity helps create a favorable climate in which more direct business development efforts can take place. But public relations is sometimes confused with these more direct efforts—marketing, advertising, and publicity. It might, therefore, be helpful to differentiate between the terms.

One widely used definition of public relations is that it is that management responsibility which identifies and evaluates public attitudes; reconciles an organization's needs with the needs of its various publics; and plans, executes, and evaluates a program of action to earn acceptance.

In a CPA firm, public relations would be the responsibility of the managing partner and others with practice development assignments. They must ensure that information flows two ways in order to assess the opinions of key publics and plan activities that earn their support. Public relations can then help the firm adapt to its ever-changing environment.

Marketing, by contrast, is chiefly concerned with one of the key publics—clients—and is the process by which needs and wants are met through the creation and exchange of products and value with others. Prospective and current clients are obviously an important public. They are more easily attracted and retained, however, if a favorable firm image is created.

Advertising is a tool of both public relations and marketing: Defined as the use of paid media space or time, advertising enters the public relations realm when used to communicate messages about a firm or industry as a whole. This approach is known as institutional advertising.

Publicity, which provides free news and feature ideas about a firm or profession and the people involved in it to news media, was once one of the few promotional tools available to accountants. Now, some firms look beyond media relations to more direct methods of persuasion.

### The benefits of marketing

Aggressive competition is forcing firms to engage in marketing and promotional activities, like it or not. Cross-selling services to current clients is a key strategy. A firm's professional image is underused, however, if only present clients know that it exists. Marketing principles hold that consumer (client) loyalty increases as brand-name (firm-name) recognition grows. A good public relations program can build image identification and awareness among the prospective clients of a CPA firm, too.

If used properly, public relations techniques can reduce the cost of attracting new clients because coverage is expanded beyond what partners can accomplish through individual contact. A public relations program can help attract new business by making prospects aware of the benefits to them of the CPA firm's expertise in various nonaudit service areas.

Some professionals also believe that a public relations program can help bridge the gap between client expectations and the services a firm can realistically provide. And, if effective, the program should enable a firm to compete more effectively and win the respect of referral sources.

### Nonclient advantages too

Public relations can change beliefs, expectations, and awareness about the firm or the profession, regardless of the target public. It can preserve a sterling image, polish a tarnished one, or transform it altogether. Public relations allows the firm to reach both highly specialized and mass audiences by selecting communication channels and messages that help attain the firm's objectives.

Good relations with colleges can help attract talented people to the firm; and effective employee relations encourage them to stay, inform them of the firm's objectives, policies, and plans and, in general, help maximize their performances.

Media relations efforts go a step beyond publicity and seek out what reporters, editors, and news directors want to know about business and financial issues and then marshal the resources of the CPA firm to provide the information. Such creativity pays off when reporters call the firm for article ideas and sources.

In general, public relations programs should be proactive, rather than reactive. When fires do ignite, however, a crisis communication plan, within an overall public relations program, can be helpful. No business is immune to disaster. If one does occur, a crisis plan can minimize negative effects by ensuring credible, proper conduct, and can speed the firm's recovery.

### Benefits take planning

Ideal results do not happen at random. The successful public relations program is well planned, executed, and evaluated. The individual responsible for planning the public relations program should

- ☐ Know the firm's objectives and mission, and design the public relations program to support and accomplish them.



- ☐ Anticipate problems by defining key publics; determine their needs, attitudes, and awareness; and examine whether these issues are being addressed.
- ☐ Know the firm's internal strengths, weaknesses, and resources.
- ☐ Set public relations objectives in measurable terms and time frames.
- ☐ Counsel the firm's management and obtain its full support for the program.
- ☐ Establish an action plan to achieve the objectives.

The final step is to implement the plan. It is well to evaluate the program after each project and at the end of the planning year.

Some public relations activities which have been used successfully by CPA firms include educational seminars, planned social events, organized community service, sponsorship of competitive sports, specialized publications, speaker bureaus, and unique specialty gift items. Many other approaches are also possible.

#### Evaluation techniques

To evaluate a public relations program, measure it against its stated objectives. Evaluation should show what was achieved, how much was achieved, and, importantly, how well it was achieved. Quantifying such elusive concepts as image and awareness isn't easy, but it can be done.

Among the techniques that can be useful for measuring specific activities, as well as entire programs, are opinion surveys, readership surveys, and feedback/response mechanisms, such as suggestion and complaint programs.

A public relations program should be designed to support a firm's mission and objectives. If effective, the program can help a firm capitalize on its strengths and image and play a key role in communicating with those who can influence the firm's success. ☒

—by Lynne S. Butterworth, APR

*Ed. note: Ms. Butterworth is marketing director of Sartain, Fischbein & Co., a local CPA firm in Tulsa, Oklahoma.*

## CAN ADVERTISING AGENCIES AND CPA FIRMS WORK TOGETHER?

June 1986

Take a look around you and see what is happening in the accounting profession regarding marketing. There are changes, and, as a result, advertising agencies see accounting firms as potential users of their services.

Because of these changes, all managing partners have had to at least nod in the direction of marketing programs' becoming part of their firms' business development efforts and accept marketing as a major component of their plans for the future. Some may prefer to do business the old way in their organizations, but others have ventured into the marketing arena to test the response. Some firms have benefited from these undertakings, and others have had dreadful experiences. In many cases, the dreadful experiences came about because the CPA firms sought out marketing or advertising firms to help them design programs without being knowledgeable about how to select and best use such firms.

Before you decide to use an advertising or marketing-communications firm, there are several key facts to remember. First, the people in these firms know very little about your organization or what a CPA really does. They will want to spend time with you, your partners and some of the staff in your office in order to find out what your "product line" really is, to determine the firm's major strengths and to begin visualizing and conceptualizing a program for business development. This should all be done as a part of the preparation phase prior to their presenting you with a full marketing, advertising and business communications plan.

Often an advertising firm will ask at your first meeting what amount of funds you will be willing to commit over the next twelve months to marketing or advertising and what you want to achieve from the program. A good advertising firm will also question you on the demographics of your firm—not just its size but also the percentage of billings that comes from audit engagements, management advisory services, tax preparation and other work. You will need to know the number of clients you have in specific industries, such as retail operations, food-service businesses, real-estate companies and health-care-related businesses. Advertising firms need such information in order to define the strategy to be incorporated in the formal plan for business development. Having this information will also help you to focus on the strengths and expertise of your firm and determine where you want the growth and business development dollars to be spent.

While the agencies may see the accounting industry as a growing area for their services and be anxious to get your business, they often forget that CPAs may be as inexperienced in dealing with advertising firms as many advertising firms are in selling intangibles. Yet designing a marketing strategy will be a joint effort. There must be a proper fit. So first ask the advertising firms you are considering for a list of their clients to see if it includes other professional-service firms. Then find out how the advertising firms work and who would manage your account.

There is also the question for you to resolve of

whether to use a large or small agency. Large or mid-size agencies will probably not take you as a client and be able to give you effective results unless you can commit your firm to a budget of \$50,000 or more. Smaller agencies are more likely to look upon an under-\$50,000 account as good potential business and may spend more time developing a creative and effective marketing plan.

You must also decide whether you will want to do any advertising or media placement concerning upcoming firm seminars or announcements. If so, the agency may ask you for monthly news items so that they can issue press releases. If they do issue press releases for you, make sure you will be able to approve each one and know to whom it is being forwarded. Keep in mind that it is much easier for your firm to get press from smaller local newspapers than large metropolitan ones, and the business editors of the former should be the targets for your press releases and articles for publication. (Whenever they do print something about your firm, be sure to send them a brief thank-you note.)

If you're looking for intense media coverage and interest, it's a good idea to ask very specific questions. One local firm in our area neglected to ask about the selected agency's media contacts. They *assumed* they had them. The owner of the agency had given a very strong and effective presentation, but only after six months of working with that agency did the CPA firm realize that media contacts were something the agency just didn't have. When you want press in the business sections of your newspapers, your advertising agency must have those contacts to initiate interest in your firm. When you ask the agency for a list of its clients for you to call for references, check whether their clients get publicity in the papers. It's easy to place advertising; it's not easy to get a newspaper to write about you.

Media kits including professional photographs and background data about the partners and firm will be needed by an agency for promotional purposes. Depending on the agency, your cost for a media kit can be \$1,000 to \$5,000.

Make sure to ask the agencies how they bill for their services. They may give you a proposal but might omit a significant line item—"creative concept time." This can amount to 50 percent of your bill if you're not careful. One local firm found out the hard way. After committing to a first year's budget of \$11,000, they later received numerous bills for other agency time. It seems that twice weekly the staff of four people in the advertising firm met to discuss their creative thoughts about their clients. The accounting firm was billed one hour of time for each of these four people. At \$90 per hour, that equaled \$360 per week or nearly an extra \$19,000 per year for creative time. Make sure you ask if this is included in your proposal—if it's not,

you could be in for an expensive surprise.

You will also be billed for time spent by agency personnel in creating copy that you might not like, so know exactly what you want before you tell the agency to proceed with a project. If you don't have a marketing director for your firm who can prepare quite a bit of this work in-house, then make sure to ask for an estimate before the agency staff begins. Your agency should be able to quote by project, and this will give you a better idea of the forthcoming monthly bill.

(Agencies typically receive a 20 percent commission from newspapers or magazines for any media advertising placed for you. Agencies might not offer this information to you, but it is standard for them to receive such commissions. If your account is large enough, you may be able to negotiate this 20 percent, which *you* ultimately pay, down to 10 percent or 15 percent.)

Ask your clients who get media attention what advertising agency they use and what their experiences have been. The more you look, the more you'll know what to ask the agencies when you interview them. The more informed a buyer you are, the better you will be able to anticipate costs for this new project, and the better your firm will be served.

Some firms use a public relations agency rather than an advertising agency. If you're not planning to place a lot of advertisements, this may be your best bet. Usually, public relations agencies will charge a monthly retainer fee and commit themselves to working with you each month on selected topics or programs. Again, it's in your best interests before engaging an agency to find out who their clients are and then watch for items about these clients in the newspapers over a one-month period.

If you're only looking to produce a brochure for the firm or specialized print pieces for various services you offer, then perhaps a good graphic design firm will be the best answer for now.

### Reaching clients through marketing

So just what is effective and professional marketing for accounting firms? Marketing begins with an emphasis on strong client contact and responsive service to the present client base. Quite often, staff members have never thought of themselves in a marketing or selling capacity, and partners may want to evaluate in-house communications programs. Client service involves an outreach to clients through effective communication methods and image projection. People will buy your services and judge your abilities based on what they see and hear and read about your firm, not by reviewing your work papers. A solid, ongoing relationship is essential to client satisfaction and retention. And don't forget that satisfied clients are also the best resources for new business.

To create an awareness of the firm in the minds of

those people in your referral network, listen to what they identify as the needs and concerns of their clients and then emphasize the benefits your firm can offer. Don't be afraid to sell your firm. Highlight your staff, stress your attention to prompt service, be proud of your accomplishments and feel comfortable about asking for referrals.

You must know your present position in the marketplace, be aware of your firm's strengths and visualize clearly where you would like to see the firm in two to five years. From this point on, the advertising and marketing firms can help you. If you're looking for publicity and media contacts, then make sure to meet the person in their agency who handles this important area. After you've met with that individual, plan to watch the newspapers and local TV programs to see if their clients really do get the attention that the agency claims they do.

Logo development is another key service, and if you have not yet developed one, the agency will want to create one for you as part of your image development program. Creating an easily recognized symbol of your firm may not seem important, but, remember, any "product" must have an image to appeal to its targeted consumers. In selling professional services, creating an image that your referral network and prospective clients will recognize

and respect is a key factor in a marketing program.

The agency can also assist with partner sales training to further develop the sales skills necessary for a competitive business environment. Yes, I really did say *sales skills*. Sales and polished interpersonal skills are now a necessary component in CPAs' lives. Other areas for agency involvement can include seminar series coordination and the creation of a monthly advice column for the trade journals your clients read, monthly newsletters, press releases and presentation materials.

With careful planning and coordination with an outside agency, marketing can achieve positive results. It can enable you to market services to your present clients, attract new clients and bring in additional revenues to the firm in a low-key, high-impact manner. It's a challenge but one for which the accounting profession is ready. ☑

—by Wilma G. Anderson  
executive vice-president  
Whittaker Health Services  
2000 Post Oak Boulevard, Suite 1650  
Houston, Texas 77056

*Editor's note: Ms. Anderson was formerly marketing director of Mann Frankfort Stein & Lipp, a local CPA firm in Houston.*

## MORE ON WORKING WITH ADVERTISING AGENCIES

October 1986

Two readers with extensive experience in the advertising business comment that in most parts of the country the usual commission paid to agencies by newspapers is 15 percent, rather than the 20 percent suggested in the article "Can Advertising Agencies and CPA Firms Work Together?" (See the June *Practicing CPA*.)

A. J. Rizzo, who has an advertising agency in Metairie, Louisiana, says that if newspapers don't have much competition in their localities, they may pay no commissions at all. The agencies must then obtain this amount from their clients. Mr. Rizzo adds that commissions for outdoor advertising, which CPA firms

are not likely to use, are generally slightly higher.

Also, Jack Buchanan, who had over 30 years in the advertising agency business before retiring last year, does not believe it probable that CPA firms can negotiate the commission downward. "You might if you have a media budget similar to [that of] Procter & Gamble or General Motors," he says, "but the typical [local] CPA firm is more likely to pay a fee on top of the commission." Mr. Buchanan says that the reason for this is that a 15 percent commission rarely covers the agency's cost of doing business with clients unless their media budgets are large.

## ADVERTISING BY CPAS—RESULTS OF A FIELD TEST

October 1979

*Last February, the Practicing CPA published the results of a survey on firms' plans for advertising. It seemed, then, that few CPAs were in a rush to take advantage of the Institute's revised ethics rule, and many preferred to wait and see what others were planning. Consequently, there has been considerable interest in the few advertisements that have been subsequently placed by CPA*

*firms. Here, then, is the report of one practitioner who decided to give advertising a try.*

In a field test of advertising for tax work, I placed three-by-two-inch displays that advertised the preparation of short-form returns for \$25 and other tax returns for \$50 in a major newspaper in Dallas. The advertisements ran from the first week of February 1979 to the first week of April.

In a deliberate attempt to avoid any flamboyant or punchy text, the remainder of the advertisements merely stated that the services were personalized and available year-round, and requested that people call for an appointment (a phone number was given). Also, the advertisements disclosed that consultations could take place on weekends and during evening hours.

The advertisements were run on various days of the week and normally appeared in the first section of the paper. One week, two smaller advertisements were used rather than a single, large one, and a few advertisements were run in some neighborhood papers.

A significant result of the test was the high quality of the clients obtained. The following chart comparing fees charged illustrates this.

<b>Exhibit 1</b> <b>Average Fees Charged Per Return</b>			
<i>Existing clients</i>	<i>Clients obtained by advertising</i>	<i>Clients obtained by referrals</i>	<i>Overall average</i>
\$121	\$127	\$137	\$128

Some factors that explain the relatively minor differences in average fees charged are that

- ☐ Minimum fees were not enforced for existing clients.
- ☐ No one answering the advertisement qualified for the short form.
- ☐ Referrals, as usual, produced some clients with very complex tax problems.

I could find no difference in the attitudes of clients who responded to the advertisements and the attitudes of those clients obtained by referrals and personal contacts. People who answered the advertisements were much like those obtained by more traditional business development methods (possibly due to the filtering effect of the \$50 minimum fee for a long form), and professional rapport was established just as easily.

Another result I noticed was the cumulative effect of the advertisements. This can be seen from the next chart which indicates when during the tax season most returns were prepared for clients in each of three categories. Early returns were prepared by the end of February, midseason returns were prepared during March and late returns from April 1 to April 15.

Although the advertisements were run with approximately the same frequency throughout the tax season, the chart shows a steady growth in responses, with over 50 percent coming late in the

<b>Exhibit 2</b> <b>Chronological Breakdown of Tax Return Preparation</b>			
<i>Period</i>	<i>Existing clients</i>	<i>Clients obtained by advertising</i>	<i>Clients obtained by referrals</i>
Early	19%	6%	45%
Midseason	47%	38%	11%
Late	34%	56%	44%
Totals	100%	100%	100%

season. No responses could be identified as coming from neighborhood newspapers, and the two smaller advertisements did not seem to produce the same results as the single, large ones.

People's comments also illustrate this cumulative effect. One respondent said, "I saw your advertisement in the paper yesterday," whereas, in fact, one had not appeared for three or four days. Another person referred to my location, although this part of the advertisement had been dropped some weeks before in order to draw from a larger area. In addition, although all results shown in the tables are given as of April 15, clients who had prepared their own automatic two-month extensions continued to answer the advertisements after that date, but not in numbers that would have significantly changed the figures shown in the charts.

In exhibit 3, one can see that approximately two out of every three new clients and dollars billed were due to advertising.

<b>Exhibit 3</b> <b>New Business by Source—Percentage of Returns and Fees</b>		
<i>Source</i>	<i>Number of returns</i>	<i>Fees</i>
Referrals and personal contacts	36%	38%
Advertising	64%	62%
Total	100%	100%

I also compared the cost of the advertisements (\$700) with the fees they generated (\$2,032). This shows that a dollar spent on newspaper advertising produced almost three dollars in additional income.

Probably the best question to ask anyone who has tried something new is, "Would you do it again?" The answer in this case is yes. However, anyone who expects to create an instant tax practice just through advertising will be very disappointed. The number of responses generated was quite modest.

Nevertheless, I think that the advertising, at least for tax clients in this field test, did much more than just pay for itself. It increased the practice growth rate, had a cumulative effect and brought in high quality clients.

Finally, I believe that one of the most significant

conclusions to be reached from this test is that, if we in the profession really knew what we were doing in advertising and could increase its overall effectiveness by even a small amount, we could produce significantly better results.

—by Robert L. Huff, CPA, Dallas, Texas

## CPA FIRM ADVERTISING (1921)

March 1979

Subsequent to the article in the February issue on advertising, two advertisements have come to our attention. They are reprinted below.

### *That And Something More*

**T**HE tax service rendered by Certified Public Accountants neither begins nor ends with the preparation and filing of tax returns.

It involves a complete service that correctly interprets every tax issue. It provides for the organization of accounting systems based on tax considerations. It keeps clients posted on the host of new rulings and amendments daily made to the tax regulations, has record of all tax dates, and sees that all tax returns are filed on time.

And in addition, with us it means personal representation in Washington, the seat of tax rulings.

### **SEIDMAN & SEIDMAN**

*Certified Public Accountants*

41 PARK ROW

NEW YORK

Chicago  
Rockford

Washington  
Newark

Grand Rapids  
Jamestown

### Fourfold Efficiency

We offer an Accountancy Service which is the most all-embracing that it is possible for any Business Man to obtain. (1) Highly Specialized Tax Department. (2) Regular Audits and Reports. (3) Periodic Bulletin Service. (4) Credit Cooperation.

Our clients declare that our service invariably saves them many times its cost.

*"Growth Through Service"*

**DAVID BERDON & CO.**

*Certified Public Accountants*

AT 277 BROADWAY

Telephone, Worth 3585

1979? No! They appeared in the *New York Times* on February 10, 1921 (before there was a ban on advertising).

## DOES ADVERTISING WORK?

February 1980

By now, many practitioners may have heard something about the advertising campaign begun in the fall of 1978 by the San Francisco CPA firm of Siegel, Sugarman & Seput. Put briefly, the partners were interested in developing new business in what were identified as the firm's specific markets and decided that advertising in local newspapers and magazines would help them reach this aim.

First-year billings from new clients who called the firm, without prior contact, in response to the advertisements were about \$100,000. This meets the firm's goal of attracting clients whose combined annual gross billings are at least double the cost of the campaign. The firm estimates that this is one-third of the typical cost of acquiring a practice.

An interesting byproduct of the advertising campaign and subsequent articles about the firm in professional publications is that the firm has attracted applicants from other parts of the country. This is an additional benefit as the firm seeks the highly qualified and motivated personnel needed for accelerated expansion.

Billings increased two and a half times to \$766,000 in the firm's second fiscal year which ended September 30, 1979. Currently, monthly billings are three times those of a year ago and the firm, which now employs 20 people, expects to bill in excess of \$1 million this fiscal year.

The firm has budgeted \$100,000 for advertising during the fiscal year that began on October 1, 1979. This is twice the amount spent in the previous 12 months.

## THE ECONOMICS OF ADVERTISING

May 1980

While the issue of media advertising for CPA firms appears to be settled in favor of advertising, the question remains as to whether or not advertising is beneficial to all CPA firms.

CPA firms are economic entities and, as such, should evaluate the merits of advertising based on relevant microeconomic theory. The decision should be a rational economic one.

The economic arguments of advertising revolve around three major issues:

- *Information versus persuasion.* Proponents argue that advertising educates and informs consumers, thereby making markets more competitive than they otherwise would be.

The opponents of advertising argue that it persuades rather than informs consumers, thereby distorting preference patterns.

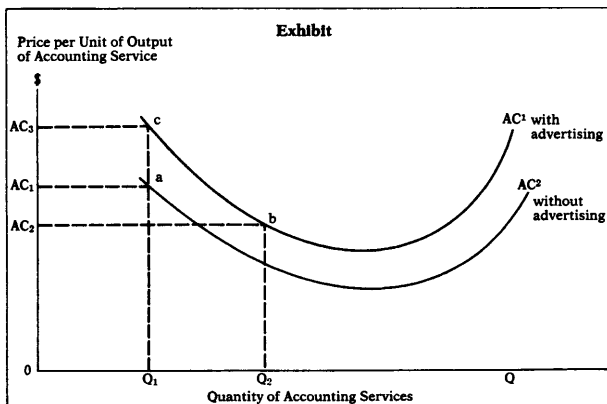
- *Efficiency versus waste.* Proponents argue that advertising familiarizes consumers with markets and thereby broadens markets, permitting large scale production at lower cost.

Critics reply that advertising encourages artificial product differentiation and results in a waste of resources.

- *Competition versus concentration.* Proponents argue that advertising encourages competition by exposing consumers to competing products.

Opponents reply that it increases the propensity of monopoly power, because large firms may be able to afford continuous advertising more easily than new or small firms.

These arguments can be depicted graphically. In the following exhibit, the average cost curves for CPA services are shown in their usual U-shaped configuration. The curves have a U-shape because of scale economies causing unit cost reduction as output expands. The initial output and price are at points (a)  $Q_1$  and  $AC_1$ , respectively.



Proponents state that advertising increases the demand for the product and allows scale economies, permitting the firm to operate at point (b). Point (b) has output,  $A_2$  and price,  $AC_2$ .  $AC_2$  is a lower unit cost than  $AC_1$ , although  $AC_2$  is on a higher average cost curve than  $AC_1$ . Therefore, the price per unit of output has decreased from  $AC_1$  to  $AC_2$ , and output has increased from  $Q_1$  to  $Q_2$ .

The opponents of advertising argue that it raises costs to  $AC_3$  with little or no change in output at point (c). Point (c) has output,  $Q_1$  and price,  $AC_3$ .  $AC_3$  is a higher unit cost than  $AC_1$ , and no change in output is depicted. Therefore, the unit price has increased from  $AC_1$  to  $AC_3$ , but no change in output is observed.

Let's take another look at these three issues.

### Information versus persuasion

Institutional advertising focuses on the dissemination of information about the (CPA) profession in general, and the advertisements do not contain the implication that a particular CPA firm is any better than another CPA firm. This type of advertising appears to educate and inform consumers, enabling them to make more intelligent choices regarding accounting services, thereby increasing competition for the consumer's dollar.

Opponents argue that consumers will be persuaded to utilize more services and/or higher priced services than needed, thereby distorting preference patterns.

Individual CPA firms must evaluate the costs of advertising versus the benefits to be derived from it regarding the information versus persuasion argument. Not all firms will arrive at the same answer. If the individual CPA firm perceives advertising to be beneficial, then the assumption must be that clients (and potential clients) will respond to the advertising. That is, the clients' preference patterns will change based upon the advertising.

### Efficiency versus waste

Advertising by CPA firms will familiarize consumers (clients) with the services offered by CPAs. This increased familiarization is intended to broaden the market for CPAs' services by increasing the number of people who will recognize the value of the services offered. The CPA firms capturing this growth of clients will allegedly enjoy scale economies through increased output resulting in increased economic efficiency both for the CPA firm and for the client.

The opposing view is that this advertising and growth concept encourages artificial product differentiation among CPA firms. That is, within a reasonable range of services offered, there is little, if any, difference between CPA firms. By advertising specific claims to fame, CPA firms are attempting to draw a distinction that does not necessarily exist. If no difference exists, then any resource usage to create differences must be a waste in an economic sense. Economic waste occurs if the CPA firm could have used a different, less costly approach to generate the same business.

#### Competition versus concentration

The proponents of advertising assert that the education of consumers and the resulting broadening of the market causes increased competition. They assume that advertising by CPA firms will, in fact, cause a reduction in the unit cost for the same service or cause a higher quality service to be generated because of this increased competition.

Opponents argue that large CPA firms will be at an advantage because of their ability to afford continuous advertising. The possibility of increased concentration of an industry into fewer and fewer firms is viewed as a negative consequence of advertising.

Institutional advertising by the CPA profession is, and was, not intended to increase competition among CPA firms. However, for an individual firm to perceive any value in this type of advertising there should be measurable benefits.

Specific advertising by a CPA firm must also have measurable benefits to that firm. The key variable in determining the effectiveness of specific advertising is to establish the goals sought. Only the individual firm can decide how competitive to be in specific advertising if, in fact, advertising is chosen as the competitive tool most effective in achieving the goals.

—by *Terry L. Campbell, DBA, CPA, CMA*  
*University of Central Florida*

## FEW CPAS PLAN TO ADVERTISE

February 1979

Few local CPA firms are rushing to their nearest advertising agencies to take advantage of the Institute's revised ethics rule, judging from the 731 practice units that replied to a recent *Practitioner* survey. Many regard advertising as unprofessional, and others are adopting a wait and see attitude.

- ☐ About 7% (52) of the firms presently plan to advertise. They tend to be the smaller practices in the smaller communities. Firms with annual billings of less than \$100,000 represented 44% of the total replies and 65% (34) of the "yes" answers. Of these, almost 60% were from communities with a population under 100,000.
- ☐ The same community pattern held true for practices that ranged from \$100,000 to \$500,000 in billings. Of 314 such firms (43%) replying, 11 plan to advertise and 7 are in the smallest cities. Among the firms with over \$500,000 in billings, 6 of the 95 respondents have advertising on their agenda.
- ☐ Newspapers were cited by all but a handful of the firms as the prime medium for advertising, with about 35% opting for direct mail, generally in addition to newspapers. About 20% plan to use magazines, with several of the larger firms using these publications exclusively. Three small firms, in small cities, are planning to use radio and television. Two of them are budgeting under \$1,000 for such a campaign. (The cost may come as a shock to these firms.)

A somewhat different attitude was reflected by a firm that won't be advertising. It reported, tongue firmly in cheek, that it planned to drop leaflets from an airplane, until it found out that a certain large firm had already rented the plane.

- ☐ Very few firms plan to disclose billing rates in their advertisements. Only 3 of the 52 plan to include this information, but another 16 are waiting to see what the competition does.
- ☐ Money is an object. Some 38 (out of the 52) firms plan to spend between \$1,000 and \$5,000, with 6 smaller firms hoping to spend less. However, 2 of the 5 firms budgeting between \$5,000 to \$10,000 have billings under \$100,000.
- ☐ The naysayers were pretty well distributed by size of practice and community. Of the 532 who gave their reasons, 43% (234) believe that advertising is unprofessional and another third does not think that advertising produces desirable clients. The remainder gave a variety of reasons, including statements to the effect that the firm is as large as it wants to be or that any desired expansion will come from existing clients or referrals. Current state board restrictions were cited by others. Still others might be ranked with the 133 "undecided" firms who are awaiting developments, largely in terms of "what the other fellow is doing."

In the final analysis, the local CPA firm seems to have an ambivalent feeling toward advertising. In

the words of one practitioner: "We have worked for years to be accepted as a profession. If we advertise, we are just another vocation." Many others seem to be awaiting developments as to what other

firms are planning. So far, it appears that the local firms, in general, have not accepted advertising as a means of practice development.

## LETTER TO THE EDITOR (ADVERTISING)

March 1980

To the Editor:

The article, "Does Advertising Work?" in the February 1980 issue, indicates that advertising works to develop practice growth. However, it appears to me that many CPA firms may not be able to effectively use advertising unless they understand the limitations of this marketing tool.

The real test of advertising to gain clients is not in first year billings but rather in the extent to which new clients remain with the CPA firm. If the clients choose to leave in a year or two, the advertising cycle must be maintained at ever higher levels in order to replace them and maintain growth.

In addition, clients gained through adver-

tising may be the most price-responsive for one-shot service and may not feel the inextricable link to their CPAs that long-term clients may feel.

Advertising may work for the San Francisco CPA firm cited because it is a new firm aggressively seeking clients. However, the real economic results won't be known until the long-term relationships are made evident.

It seems unclear, to me at least, whether or not advertising is the panacea certain people believe it to be. After all, if you lose a little bit on each client (a loss leader), it is difficult to make up this loss in volume.

-Terry L. Campbell, DBA, CPA, CMA  
University of Central Florida

## WHAT CLIENTS THINK OF ACCOUNTANTS ADVERTISING

February 1980

To advertise or not to advertise? That is a question still unresolved by many CPA firms. Last February we reported on our survey which showed that less than 10 percent of the local firms had immediate plans to take advantage of the revised ethics rules that permit firms to advertise their services.

The majority believed that advertising is unprofessional, and others did not think it produces desirable clients. A substantial number of firms had not committed themselves and were waiting to see what develops. With few exceptions, those who were planning to advertise were starting with a modest effort. (For a report on a firm that is making a substantial investment in this area, see page 7.)

In the final analysis, it is the action and reaction of clients and potential clients that are the key elements in whether to adopt such a program. Last fall, three faculty members of Southern Illinois University at Edwardsville\* reported on the responses of 264 chief financial officers to a survey on attitudes toward advertising by accountants. The results appeared in the October issue of the *Financial Executive*.

Here are some of the general conclusions:

- ☐ Almost three-quarters (73 percent) of the respondents believed that accounting firms should be permitted to advertise, and 62 percent of the total thought that it would be an effective way to communicate the various services provided by accounting firms.
- ☐ Price advertising, however, would seem to have little direct effect on client actions. About two-thirds of the executives favored the setting of advertising standards by the AICPA and were overwhelmingly (91 percent) opposed to the involvement of the federal government.
- ☐ About 80 percent believed that the quality of accounting services would not decline as a result of advertising, and only a third thought that the cost of these services might increase.
- ☐ A majority (57 percent) indicated that advertising would not increase their awareness of quality differences among accounting firms but could affect their choice of firms by making them more aware of nonauditing services being offered.

According to the authors, the background of the respondents caused some significant differences in their replies. Those financial officers who did not

\*M. Robert Carver, Jr., chairman of accounting and finance, and associate professors of accounting Thomas E. King and Wayne A. Label.



have public accounting experience or college degrees were more strongly in favor of advertising and believed more strongly that it would create more diversity and variety among accounting firms and aid in the selection of accounting firms by providing information on specific services and the costs of such services.

They tended to have stronger views that advertising would influence their choice of accounting firms by making them more aware of price and quality differences among firms, of industry specializations and other services being offered.

They said they might be more influenced by advertisements that discussed price than by those that described cost-saving techniques.

This group also indicated more strongly that the image of the accounting profession would not be adversely affected by advertising and that, in fact, the public image could be enhanced.

These views in large part reflect those of financial officers from smaller companies, irrespective of the educational and experience backgrounds.

Another aspect of the survey indicates that if you have kept a client for five years, the company is less likely to shop around for someone else.

However, the respondents who have less than five years' experience with their accounting firm

are apt to look more strongly upon advertising as a way to check price differentials among accounting firms and to make themselves more aware of services that they had not previously considered purchasing.

There appear to be at least two overall implications to this admittedly limited survey.

First, if an accounting firm is going to advertise, it should go first class. Although the respondents indicate that quality of service cannot be determined from an advertisement, the halo effect of a quality ad cannot hurt the firm, but an ill-conceived one, poorly presented, can have a negative effect.

Second, once you have a client, you can't rest on your laurels but should spend the first few years putting your best foot forward to demonstrate the variety and utility of the services your firm has to offer.

The whole concept of advertising is still new to the profession, but this study seems to indicate that there is room for experimentation without loss of prestige or creating an unprofessionally competitive situation. We would welcome the experiences of our readers as guidance for their colleagues.

## Section 12

# MERGERS AND ACQUISITIONS OF CPA FIRMS

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## MERGERS—MYSTIQUE, MYOPIA OR MISSED OPPORTUNITY

June 1979

**mystique** /mis-'tek/ *n.*: an aura of mystery surrounding a person, activity, etc.

**myopia** /mi-'o-pe-ə/ *n.*: 1a: an abnormal eye condition . . .  
b: near sightedness; 2: lack of foresight.

In conjunction with a presentation on mergers at the AICPA MAP conference held last year in Cambridge, Massachusetts, I formulated a questionnaire which was handed out to the (approximately 225) attendees. The idea was to find out why firms merge and the type of information sought by merger partners. The results of this survey were not only informative but in many instances, surprising.

For example, the answers to one of the questions showed that continuing professional education is taking on new significance in today's climate—three out of four respondents indicated that this subject entered into their merger discussions. And, nearly all practice units talked about the quality of work although not all examined work papers. (I wonder on what basis the quality determination is made, in some cases.) The responses showed that geographic location is a primary consideration but, apparently, recruiting policies are not looked upon as a critical factor.

In order to determine what part firm size plays in attitudes and considerations toward mergers, I placed the respondents in the following categories:

- A Over \$1,000,000 in gross billing
- B \$500,000 to \$1,000,000 in gross billing
- C \$250,000 to \$500,000 in gross billing
- D Under \$250,000 in gross billing.

The responses to the questions varied in number, the biggest response to a single question being 74 with the average probably between 45 and 50. With these qualifications in mind, I will present some of the questions and answers (in italics) together with my observations.

<i>Have you ever merged?</i>		A	B	C	D
	Yes	17	8	2	1
	No	9	19	9	9
<i>If so, how many times?</i>		A	B	C	D
	once	9	6	1	1
	twice	6	2	0	0
	three times	1	0	0	0

It appears that a number of bigger firms reached their objective by merging—up to a point. Then, they grew from within.

<i>Have you ever demerged?</i>		<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>
<i>Yes</i>	4	0	2	0	
<i>No</i>	20	25	8	9	

All marriages are not made in heaven. But, the fact that a merger doesn't work the first time does not mean it won't ever work. Many reasons given

for the failure of a merger centered on personality conflicts among partners, differences in approaches to practice management or the desire of one person to practice on his own. These are points that should have been thoroughly examined prior to the merger.

*What was the motivation for merging? (By priority)*

**Group A**

(1) *Geographic location, growth and economic advantages, better utilization of a firm's specialty and personnel skills, prevention of large client loss, acquisition of volume and staff.*

(2) *To acquire additional or younger partners, to increase technical support or a firm's profitability.*

(3) *For prestige or security, to spread overhead or eliminate travel, to get good people, to add to client base or increase client service.*

**Group B**

(1) *Larger fee base, growth, new market area, improvement of technical competence, providing better service to clients.*

(2) *To broaden areas of expertise, to pool resources, reduce overhead and improve staff utilization.*

(3) *Growth, to expand services, departmentalize, obtain broader client base and effect cost savings.*

**Group C**

(1) *Growth, to increase specialization and acquire personnel.*

(2) *Greater profit and specialization to permit room for staff promotion.*

(3) *To obtain more knowledge and increase training capability, spread overhead and nonchargeable costs over a bigger practice.*

**Group D**

(1) *Growth, to increase the size of a practice, another CPA's retirement.*

(2) *To obtain specializations or personnel.*

(3) *Continuity, geographic.*

It is interesting to see priorities shift as firms grow and objectives are achieved. Having specific firm objectives rather than just general intentions is important for success.

<i>For how long did you negotiate?</i>	A	B	C	D
<i>Less than 4 months</i>	8	6	2	2
<i>4 to 8 months</i>	5	2	0	0
<i>8 to 12 months</i>	1	2	0	0
<i>Over 12 months</i>	2	1	0	0

Some things do not improve with age including, apparently, negotiations. Mergers that are most likely to be successful are those in which the participants have clearly defined objectives. They do not try to put together pieces that do not fit.

*Were the following items examined or decided upon during negotiations?*

<i>Partners' outside activities?</i>	A	B	C	D
<i>Yes</i>	19	3	1	1
<i>No</i>	3	9	2	2

It's surprising that group B did not deem outside activities important.

<i>Billings and collections?</i>	A	B	C	D
<i>Yes</i>	22	10	3	3
<i>No</i>	0	2	0	0

Billings and collections appear to have been on everyone's mind. Billing rates are often a stumbling block in making a merger.

<i>Death policy?</i>	A	B	C	D
Yes	20	7	2	2
No	2	5	1	1

It is surprising that 9 out of 40 did not address themselves to this inevitable occurrence.

<i>Demerger provisions?</i>	A	B	C	D
Yes	11	4	0	0
No	10	8	3	2

Considering that divorce can and does occur, it is astounding that most people do not address themselves to this possibility.

<i>Departmentalization?</i>	A	B	C	D
Yes	14	4	2	1
No	7	8	1	2

This is obviously more significant in larger practice units than in smaller ones.

<i>Disability policy?</i>	A	B	C	D
Yes	17	7	2	1
No	5	5	1	2

It is hard to conceive that one-third of the respondents do not consider this an important item.

<i>Expense reimbursement policy?</i>	A	B	C	D
Yes	19	4	1	1
No	3	8	2	2

This can be a difficult issue to resolve after a merger and is best examined before it results in a problem.

<i>Firm location?</i>	A	B	C	D
Yes	19	10	2	3
No	3	2	1	0

Where the merged firm should be located seems to concern nearly everyone, in part because of the problems of what to do with the old lease.

<i>Firm name?</i>	A	B	C	D
Yes	18	9	3	3
No	3	3	0	0

A major consideration and a problem—people's egos are often the single greatest deterrent to mergers. The egos win the battle but lose the war.

<i>Firm philosophy?</i>	A	B	C	D
Yes	19	8	2	2
No	2	4	1	1

I was pleased to see that most respondents discussed this item because it shows they have defined the objectives they wish to achieve.

<i>Gross billing?</i>	A	B	C	D
Yes	21	11	2	3
No	1	1	1	0

Results are as expected from an accounting oriented group.

<i>Labor turnover?</i>	A	B	C	D
Yes	16	6	2	1
No	5	6	1	2

You should want to know if the other firm has a high turnover problem. This item is not considered as frequently as it should be.

<i>Managing partner?</i>	A	B	C	D
Yes	18	5	2	1
No	4	7	1	2

The response of group B is surprising. Many people seem to be timid about discussing this.

<i>Net profit before partners' salaries?</i>	A	B	C	D
Yes	19	8	2	1
No	3	4	1	2

I would have anticipated a stronger yes posture because this is a measure of operating efficiency and effectiveness.

<i>Organization chart?</i>	A	B	C	D
Yes	14	1	1	0
No	8	11	2	3

Note the response of group B. It is surprising that duties are not well-defined before a merger, and this makes me wonder whether people will continue to do "their thing" after the merger, thus defeating its purpose.

<i>Partners' percentages?</i>	A	B	C	D
Yes	18	9	3	1
No	4	3	0	2

As stated previously, we are a number-oriented group.

<i>Partners' salaries and/or draws?</i>	A	B	C	D
Yes	18	10	3	2
No	4	2	0	1

A significant premerger point, and I am surprised that in some instances it was not covered until after the merger.

<i>Partnership agreement?</i>	A	B	C	D
Yes	18	9	1	2
No	3	3	2	1

Without this document, the chances of failure are much greater. I'm amazed that almost one-third of the respondents did not appear to have the agreement ready for execution before the merger.

<i>Personnel policies?</i>	A	B	C	D
Yes	19	3	2	0
No	2	9	1	3

A firm's personnel is one of its most valuable assets and should be provided for in the merger agreement. Conflicting personnel policies will often create subsequent difficulties.

<i>Professional participation?</i>	A	B	C	D
Yes	13	4	2	2
No	7	8	1	1

This tends to be indicative of the creation of a firm image and an awareness of the benefits that can be derived from professional participation.

<i>Provisions for admitting new partners?</i>	A	B	C	D
Yes	15	7	2	1
No	5	5	1	2

We don't know our future needs and this can be a difficult provision to handle. However, it shouldn't be ignored.

<i>Recruiting policies?</i>	A	B	C	D
Yes	15	3	1	0
No	5	9	2	3

Possibly one of the less critical points, as was reflected in the responses.

<i>Retirement policy?</i>	A	B	C	D
Yes	18	9	1	2
No	3	3	2	1

How you get out is as important as how you get in.

Staff salaries?

	A	B	C	D
Yes	15	10	3	2
No	5	2	0	1

This should be examined carefully. Too wide a variance in the salary scales of merging firms can result in staff dissatisfaction and possibly destroy the merger.

At the time this survey was taken, approximately 10 percent of the respondents were actively involved in merger negotiations, although most of them did not expect a merger to take place for over a year.

An interesting point that became apparent is the marked shift in objectives as firms grow, with the larger firms becoming more interested in regional expansion. This seems to portend that we will see more large firms, but I do not believe this trend will result in total disaster for smaller high-quality practice units.

I believe the responses of group B showed the most surprises and the least consideration to the substantive issues necessary to effect a successful merger. In spite of this, none of the respondents demerged.

The survey provides an insight into what makes or breaks firm mergers and can be a useful checklist to those contemplating such a union. It is better to look before you leap, so don't be afraid to

discuss mergers with practitioners who have done it. They are usually quite honest as to the do's and don'ts and as to how they would do it differently another time. (I act as referee on occasion, and I ask the participants those questions that they are too shy or embarrassed to ask each other.)

You should be as prepared for a merger as you are for an audit. Pursue a merger aggressively if that is your objective, but don't spend a lot of time and energy pursuing something that won't come to fruition.

Learn to listen and to suggest as opposed to talking and telling. With the right attitude and organization, you have an excellent chance of participating in an advantageous and successful merger.

Now, getting back to those opening sentences, I tend to think that a more practical definition of mystique is "that which we have not thought about, haven't tried or don't understand." And, I like the second definition of myopia, "lack of foresight."

So, when it comes to mergers, recognize the mystique, overcome the myopia and then maybe you won't miss the opportunities.

—by Sidney F. Jarrow, CPA  
Chicago

## MERGERS—OPPORTUNITIES UNLIMITED

September 1979

*In the June 1979 issue of the Practicing CPA, we published the results of a survey on why firms merge that was conducted by Sidney F. Jarrow, CPA at an AICPA MAP conference in Cambridge, Massachusetts. This article, based on his presentation at that conference, contains some more of Mr. Jarrow's observations on mergers and some unique advice on how to prepare for them.*

It is difficult for a firm to remain at a given size because if the partners resist growth, the staff stagnates and leaves. However, growing for the sheer sake of it is not the answer; there must be sound reasons for wanting to expand the firm. Many of these reasons were given in the June issue as the motivating forces behind planned mergers.

Merger must not be thought of as an end result in itself. It is not a substitute for organizing your practice, thinking, planning and budgeting, etc. It can be the basis for growth, however, if done intelligently. But you can't just wait to see how it turns out; you must be precise, have a written plan and remember that the merging firms are not the only considerations—there are people involved.

Despite the advantages a merger may offer, sometimes there are psychological reasons why practitioners are hesitant to go through with one. For example,

- ☐ The partners may feel that the present practice already provides enough income and professional challenge.
- ☐ Senior or older partners may be reluctant to have their authority diminished or possibly lose some personal independence.
- ☐ Some of the younger partners may not wish to lose status and become managers or principals of the new firm.
- ☐ Egos may be deflated if the new firm name does not include the names of all partners.

There are many points to be considered and resolved before the merger. Even then, you still can't be sure how it will work out. Nevertheless, you must not have a negative attitude. You may find it helpful to draw an analogy between merging your firm and providing for your family.

*Merging is not unlike cooking.* You decide upon a menu, carefully select your recipes to ensure compatibility, obtain the best ingredients, mix them together in the proper proportion and cook them to taste. Then, you serve reasonable portions (don't get involved in more mergers than you can handle or you will get indigestion) and watch for your family's reaction. One bit of advice to the cook is don't stew over a possible failure or you could end up starving to death. One bad meal might make you uncomfortable for a while, but it is not usually fatal.

*Let us move from the kitchen into the garden where growth can be controlled to a marked degree.* You should nurture your people carefully and place them in the right environment where they can grow. It is very important to fit the people to the job. Let them know what will remain the same after the merger and what will be different. The merger provides an opportunity for the staff to grow as well as the firm. Do not build such a magnificent greenhouse that you forget that the plants are the most important part. In other words, don't forget your people.

There are many rewards that come from good planning and planting in your firm garden. Some of these rewards are:

- ☐ Achievers are stimulated by the expanded horizons.
- ☐ Communicational skills are refined through keeping staff and clients informed about the merger. Be positive and make sure you give clients good service after the merger.
- ☐ Growth is achieved through negative attrition of clients. The greater resources of the merged firm will give you the chance to upgrade clients.
- ☐ There is greater mobility of labor. You have a larger staff with which to work.
- ☐ A defined firm image emerges.
- ☐ You can indulge in the luxury of thinking—you'll have more time.
- ☐ Prospects for continuity and survivability of the firm (family) are enhanced.
- ☐ You might ultimately even have to buy more acreage—you might have to expand again because you did it right.

*What growing pains can be expected if we increase the size of the family?* Sometimes the rewards are further down the road than you think, and you may be required to invest in your own future. It is a good idea to have a partners' retreat at a site away from the office to evaluate the economic contribution of each family member and resolve differences. Philosophical differences can arise over whether the firm should stress quality or quantity, what the policies should be toward billing, collect-

ing, expenses and CPE, even over the nature of practice clients and whether bigger is necessarily better. In addition, you may be faced with sibling rivalry, problems of partner adjustment and subordination of identity.

*Plan your housekeeping to minimize wasteful and time-consuming chores.* Draw a picture of the family tree—present and future—and define responsibilities. There are many areas that might need to be taken care of or cleaned up—areas such as accounts receivable and payable, work-in-process, insurance, supplies, wage rates and fringe benefits. You can check to see if the manuals and workpapers are compatible, cancel duplicate subscriptions and let important people know about the merger.

Don't waste time trying to change people; if they don't get along, consider the need for minor surgery. If more surgery is needed, you may have to determine whether or not the patient is terminally ill.

*Take a look at the bedroom.* Recognize that you must sleep together, and learn the language of love (communication). But, don't just look at the bed, look under it and in the closet. Feel secure when you turn out the lights.

*The living room* is where the family should gather and have a free exchange of ideas. Get people together—the technical staff, support staff, partners and potential members of the family. This is where decisions should be made (both pleasant and unpleasant), where guests are entertained, where you think and relax.

*Decide on the facade of the house*—the name, address and necessary upkeep. Get more space than you need so that you don't have to move in a year or so. And don't forget the other rooms, the basement—supplying energy, the bathroom—functional, the dining room—feast or famine, the attic—upstairs storage and possibly a place where you might find things you don't like.

You will have to consider divorce, retirement, disability, death and many items mentioned in the previous article. However, don't let the tail wag the dog—don't let a merger be forced on the firm by client action, a palace revolt or dissolution of the partnership. Remember, most good mergers are the result of careful, effective planning coupled with judicious risk, and they can be a means by which you can achieve certain objectives.

The most important ingredient to the success of any firm is the chemistry of the partners and the environment they provide in which to motivate the staff. A merger can help provide this environment but, don't forget, "planning is expansive, not planning is expensive."

## MAKING THE MARRIAGE LAST

August 1984

Our firm has learned a lot about mergers and acquisitions during the last 15 years. Sometime around 1970, we decided that it was essential to provide opportunities for our young staff members if we were to retain them. We concluded that this could be accomplished through mergers with or acquisitions of other CPA firms. We have subsequently made more than 20 downward mergers and acquisitions. Some of these experiences have been good and some bad. Overall though, we believe that this is one of the ways we will survive as a full-service CPA firm in the years ahead.

We consider that mergers are an effective, profitable method of growth for both of the firms involved. In a merger the firms join together, partners from both continue in the new entity and all are bound by the same partnership agreement. A buyout, or acquisition, can also result in growth for the acquiring firm, but in this case the selling partners retire (it can provide a good retirement for the sellers) or some retire and others continue to practice.

Our mergers and acquisitions have been downward, i.e., we have always been the larger firm. In such combinations, the larger firm is dominant; the smaller firm adopts its partnership agreement and follows its management policies.

When two firms of similar size merge, it is known as a parallel or "sideways" merger. These are less frequent and certainly more complicated, with both firms being in a position to effect terms and changes.

There is risk to all mergers. All kinds of things can go wrong and, in keeping with Murphy's Law, probably will. First of all, will everyone be able to get along? To find out if you would be comfortable with the people with whom you are contemplating merger, try the "Cocktail Party" test. Ask yourself if you would be embarrassed if they were at a cocktail party with you. If the answer is yes, you probably shouldn't be partners. The people involved must share a philosophy—have roughly the same number of chargeable hours, salaries and volume per partner. They must be the right ages and enjoy similar professional reputations.

From the larger firm's standpoint, the merger must improve its geographic coverage and be in keeping with its overall growth plan. The makeup of the practices should be similar, or at least complementary and the quality of the fees should be the same.

Why do it? Some of the reasons for the larger firm are to obtain additional client base, good people, more technical talent and to spread the administrative load. Adding good people is the most important reason.

What are the advantages for the firm that is merging upward? Increased financial stability is one, improved quality control is another, and the better organizational structure of a larger firm is often a third incentive. The ability to attract and provide upward mobility for talented personnel is very important to smaller firms (as it is to us). Staff accountants must be able to see a future. They want to be able to improve their skills and be partners in the next seven to ten years. A merger with a larger firm can give them exposure to a wider range of clients, both in size and type, and enhance their partnership prospects. It can also improve the ability of the firm to survive the unexpected loss of a key person, and, in many cases, enable partners to retire.

Retaining clients is also an important reason for a firm to merge upward. Growing clients may outgrow a CPA firm and require specialized services that it cannot provide. Small firms often shy away from seeking technical assistance from a very large firm. They fear it could be a case of letting the fox into the chicken coop. Instead, a merger with a slightly larger firm that has a staff with the requisite experience is viewed as an attractive alternative.

There are reasons against upward mergers, too. Senior partners may lose some of their personal independence, some may lose status or their relative authority may be diminished. Perhaps most partners are happy with the firm's present size and content with the income and professional challenge it provides. In a few instances, some partners may have outside investments and activities that are not compatible with the larger firm's policies.

The point to keep in mind is that if people are generally happy with the firm in its present state, don't merge. Things do change when you merge—especially when you merge upward. There are more rules and some people just don't function in an organized, structured environment. In other words, "if it ain't broke—don't fix it."

### Making it happen

If you have reached the conclusion that a downward merger might be a suitable move for you to make, the first thing you have to do is to find firms that might make suitable merger partners. Although we have never used one, merger brokers are one source. Their fees are typically 10 percent of one year's volume of the firm that is merging upward. We find that advertisements in the *Journal of Accountancy* are an excellent source; also, having a wide range of acquaintances in the profession and being known as a firm interested in downward mergers are significant factors in our ability to find suitable firms.

It is very important to find out the real reason why the other firm wants to merge. This is not

always the reason stated because the partners sometimes think that if you knew the real motives you wouldn't be interested. Keep in mind that if all is well, they probably wouldn't be talking to you anyway. So find out the problems before the merger and determine whether or not these can be solved so as to avoid trouble later. Currently, one of the main reasons to merge is because of concern about the future in our rapidly changing profession. There is strength in numbers.

#### Information to evaluate

You must obtain all pertinent financial data and tax returns. It is amazing how often this information is not available. Watch out if it isn't. Look at the leases and other contracts, client information (such as fees and the nature of the practice), and study the history of the firm, its partnership agreement, profit sharing, retirement and benefit plans.

At your first meeting, find out the quality and number of staff members. Sometimes staff will leave after a merger because people think the partners are selling out. Work out the financial arrangements and determine both the short-run and the long-run expectations. Individual partner roles are very important. Put it all on the table—the role of the senior partner, special duties of any partner who retires early, etc. Neither side wants any surprises after the merger.

We give the other firm our partnership agreement, partner manual, profit-sharing and long-range plans to look over. At this stage, only one person from each side is involved in the negotiations. Then we hold a second meeting with all their partners present so that we can solve any individual problems. Once these issues are settled, we then deal with the specifics concerning financials, management, etc. At this point, their senior partners might decide to retire or come in as special partners. And of course, not all of them will necessarily be right for our firm, anyway.

Once past this stage, quality is the next item on the agenda. Any firm with whom we are having merger negotiations is subjected to an extensive review by our director of professional practice. We are particularly interested in the quality of the firm's work and the quality of the fees and clients. What we find helps us determine what our staff needs will be and can influence various aspects of the management plan, especially the question of whether or not to transfer personnel to the new office. In our firm, the approval of a merger is a very delicate operation. The partnership board reviews the prospectus and votes—approval requires a two-thirds affirmative vote. This is not an easy meeting.

**The above mentioned stages are relatively easy compared with what comes next—making the merger work**

In an article, "Mergers—Opportunities Unlimited" that appeared in the September 1979 issue of the *Practicing CPA*, Sidney F. Jarrow, a Chicago practitioner, mentioned that despite the advantages mergers may offer, sometimes there are psychological reasons why practitioners are hesitant to go through with one. Basically, the examples Mr. Jarrow gave are that

- ☐ The partners may think the present practice provides enough psychic and financial rewards.
- ☐ Senior or older partners may be reluctant to give up some of their responsibilities and decision making prerogatives.
- ☐ Some of the younger partners may not wish to lose status and become managers or principals of the new firm.
- ☐ Egos may be deflated if the new firm does not include the names of all partners.

Keep in mind that the most important ingredient to the success of any firm is the chemistry of the partners and the environment they provide in which to motivate the staff.

To begin with, you must have a management structure that will make the merger work. When we first started merging with other firms, we termed the combined operations mergers but, in fact, managed the new offices like acquisitions. It just did not work. You must integrate the partners into the total firm as fast as you can.

Our firm operates with a seven-person board (which acts like an executive committee) only two members of which are original partners in the firm. New board members are elected each year for a three-year term. The board controls the firm, appoints the managing partner and director of operations, approves mergers and profit shares. (Our profit sharing plan is based on performance, not seniority, so high-performing, young partners love it.)

All of our operating and professional policies are in writing. It must be this way to avoid arguments. There is utter chaos unless people know what is expected. We are members of the AICPA division for CPA firms, which requires us to have a quality control document and procedures to implement policies. We have successfully passed two peer reviews and members of our firm are active in the AICPA and state society. We need all of these things to make ourselves attractive to other firms.

In a buyout, as opposed to a merger, the clients and staff of the other firm join us but the partners do not. We are therefore not as concerned about partner personality as is the case in a merger. However, the staff is important and we really have to know



what we are getting. Good people attract good clients and a good staff is the key to continuity. Find out if key people are tied to a noncompetition agreement.

When looking at a possible acquisition, we carefully consider the working capital needs, profit potential and cash flow because the practice must generate sufficient revenue to pay both our partner-in-charge and the seller. We prefer to buy a practice in a town where we already have an office, because if it folds in to our existing practice, there is a much better profit potential.

#### **Why does someone sell a practice?**

Often, in one/two partner firms there is no succession plan and the most common reason to sell is so that the partners can retire. Sometimes the reason is concern for client service. This is frequently because the staff is not up to par which, in turn, is a sound reason for always carefully evaluating the personnel before buying a practice.

There are several ways to purchase a practice. It can be done on a retained fee basis (per client). This way you don't pay for clients that leave. However, it may result in your paying for services that you have initiated. A good method for the buyer is to pay the lower of sellers' fees or acquiring firms' fees in a base period. One can pay a flat amount. This is a gamble but can work out well in times of high inflation or

when you acquire a practice that hasn't been serviced properly.

As in a merger, it is very important to have a quality review and to determine staffing requirements. Keep in mind that with the partners gone, the staff will be the key to client retention. A non-competition clause may be the most important element in the purchase agreement and should apply to all staff as well as the sellers.

We firmly believe that mergers and buyouts can be an effective method of growth that, perhaps, any firm of under \$1 million in gross revenues should seriously consider. With some practitioners seeking a way to retire through the sale of their firms and others seeking the greater professional challenges that a larger firm can offer, there are opportunities everywhere.

Perhaps the most essential ingredient to making the marriage last is a shared philosophy of what the combined entity should be. We think this is more important than ever now, as our recent combinations have tended to be less with practitioners wanting to sell out and more with those seeking greater challenges. Just reassure the clients. Have a social to let them know the partners have not sold out, and that they are still there ready to provide even better services. ☒

*—by J. Curt Mingle, CPA  
Peoria, Illinois*

## **PURCHASING A SMALL PRACTICE: THE WAY TO GROW QUICKLY**

*September 1986*

One of the best kept secrets for achieving rapid growth, especially for sole practitioners and small CPA firms, is the purchase of an accounting/tax practice. Just scanning the classified advertising sections of our professional journals reveals that there are practices for sale, but gaining a knowledge of the mechanics involved in successfully purchasing a suitable practice is not so easy. Readers might therefore be interested in my experience of purchasing two practices. But first, my background.

After becoming a CPA and working for others, both in public accounting with a large firm and as a school's business manager, I began in 1968 to build a tax and accounting practice on a part-time basis. This second job, occupying evenings and weekends, centered on earning additional income primarily during tax season.

In 1981, my client base numbered 130, composed mostly of individuals for whom I prepared income tax returns. I had a dream of opening my own CPA firm on a full-time basis, but I knew that it would take too long to develop this by the normal method of referrals. Then I happened to see an advertisement in the local newspaper for a small accounting/tax practice that was for sale. Not only did my

subsequent purchase of this practice work out well for me, but it was also the key to realizing my goal of operating a CPA practice on a full-time basis.

#### **The steps involved**

The first step in making such a purchase is to decide exactly what type of practice is desired. It would be impractical, for example, for a sole practitioner who does not want to employ other professionals, to purchase an audit practice with many calendar year-ends. A better choice might be a small tax practice that cranks out individual returns on an assembly-line basis. Age is another consideration. Perhaps the seller wishes to retire, and the practice mostly consists of clients in the same age bracket. These are the sort of details to find out when initially responding to an advertisement.

In most cases, the sellers have one thing in mind, that is, to obtain top dollar for their accounts. This usually means that they must feel that the buyer is right for their clients so that high earnings will result.

At the initial meeting, you should be furnished with a list of fees received from individual clients (without the names of the clients) during the past year, and showing the type of work generating the

fees. Many sellers prepare a list such as the one on the following page.

By the end of this meeting, you should know the reasons why the practice is for sale, what type of practice it is, the mix of clients (individuals, businesses, clients' ages, etc.), what the biggest problems

### The purchase agreement

Make sure that the contract has a covenant restricting the seller from engaging in similar work within a specified radius of your location for a given number of years. The restrictive covenant can be amortized by the purchaser over its life. Usually, the

purchase price will be allocated in the contract to reflect one-half for the restrictive covenant and one-half for goodwill. (Since the buyer and seller are at opposite ends for benefits, a 50-50 split is the best compromise.) The restrictive covenant will result in ordinary income to the seller, and goodwill will be capital gain. The buyer will have to carry goodwill as an asset without its being amortizable for tax purposes. If other assets are purchased, a separate value will have to be placed on them.

### HOW THE FEES ARE EARNED

<i>Client</i>	<i>Entity</i>	<i>Fees Earned 1985</i>	<i>Description</i>
A	Individual	\$ 200	Tax preparation
B	Corporation	2,800	Monthly accounting and quarterly tax payments
C	Partnership	1,000	Annual tax returns—real estate rentals
* * *	* * *	* * *	* * *
175 total		\$50,000 total	

are in administering the practice; and you should have formed an opinion as to the seller and his or her integrity. Also, don't forget to note if a few clients account for a large proportion of the gross fees.

### How much is the practice worth?

Let's say that you and the seller feel comfortable with each other and that you would like to take over the practice. How much is it worth?

Most practices sell for a multiple of one year's gross fees earned by the purchaser. The multiple used in the first practice I bought was 125 percent of the first year's gross fees. A down payment is needed, and the balance is usually paid over a few years with interest. The risk to the purchaser, of course, is that a significant number of clients will not be retained after the first year. Based on my experiences, I believe this occurrence to be unlikely.

Prior to signing the purchase agreement, I recommend spending a full day with the seller reviewing files and making notes of any peculiarities relating to individual clients. Make notes, for example, of name pronunciations, nicknames, and probable future events, such as a client's receiving a substantial inheritance in the coming year. Check files for clarity, neatness, and review trails. Be satisfied that the seller is competent and that the work performed conforms to your standards.

If you have an established office in a different location, in the suburbs, for example, and the seller is downtown, find out where most of the clients are situated. Try to determine if they will be willing to work with you in your location.

Be sure to include a statement that the seller will be available as often as needed to answer questions for a period of one year. Most sellers wish to include a clause stating that if the purchaser dies or becomes disabled before performing the work, a minimum amount is due (usually the first year's gross). Purchasers should therefore insure themselves against this possibility by taking out a life insurance and disability policy.

### Two case studies

In 1981, when I purchased a tax and accounting practice from a sole proprietor located in downtown Denver, I had already established my part-time practice approximately eleven miles to the south-east.

The seller wrote to the clients, explaining his retirement from practice and introducing me. I followed up with an introductory letter stating that I would maintain the seller's fee schedule for the upcoming year. We both made personal visits to the larger clients, and I telephoned all who were not visited. The actual statistics were as follows: Estimated first year fees:  $\$31,000 \times 125\% = \$38,750$  (goodwill =  $\$19,375$ ; restrictive covenant =  $\$19,375$ ). Actual first year's fees:  $\$22,716 \times 125\% = \$28,395$ .

Of the 130 clients purchased, 100 used my services the first year, and the fees earned were 73 percent of estimate. In 1986, I will earn  $\$42,000$  from the clients who have remained and the referrals that have resulted from this source.

In late 1985, I purchased the practice of a non-CPA tax preparer who was moving to California. There were 57 clients, and the seller estimated 1986 tax season earnings at \$7,000. He originally desired to sell the practice for \$7,000 cash, but I persuaded him to accept 100 percent of the 1986 tax season's gross fees, payable over two years.

I prepared returns for 52 of the clients and some referrals, and actual fees totaled \$8,803. In addition, I billed \$1,917 for non-tax services, and, although

this was not part of the sale agreement, I paid the seller 10 percent of this amount. I am still the only professional in my practice although, as a result of the purchases, I now have 350 clients. I have achieved my main goal, which was to work as a sole proprietor, grow to where I would be busy all year round, and still be able to service all my clients myself. ☒

—by *Lawrence Sanders, CPA*  
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